THE PENSION RESERVES INVESTMENT TRUST FUND

Promises to Keep

Final Report of the
Massachusetts State Teachers' and Employees'
Retirement Systems Trust,
December 31, 1996

and the

Annual Report of the Pension Reserves Investment Trust Fund,
June 30, 1997

PRIM

Final Report of the

Massachusetts State Teachers and Employee

Retirement Systems Trust,

for the calendar year ended December 31, 1996

and

Annual Report of the Pension Reserves Investment Trust Fund,

for the fiscal year ended June 30, 1997

Table of Contents:

Message from the Chairman

December 12, 1997

Dear Participants and Beneficiaries:

In last year's PRIT annual report, I outlined what the Pension Reserves Investment Management ("PRIM") Board accomplished during one of the most productive years in its history. The passage of legislation merging the Massachusetts State Teachers' and Employees' Retirement Systems ("MASTERS") Trust and the Pension Reserves Investment Trust ("PRIT") funds under the PRIM Board's management, the initiative permitting local retirement systems to invest in PRIT on a "segmented" basis, the reinstatement of the annual state appropriation for Participating Retirement Systems, and the exceptional performance of the Fund were all great achievements, but more work remained to be done.

In fiscal 1997, we ushered in a promising new era in pension fund management, and saw the close of another era when the MASTERS Trust merged into the PRIT Fund. Accordingly, this year's report combines the fiscal 1997 annual report of the PRIT Fund and the final report of the MASTERS Trust. We will discuss the promises of the new era and review the history of the contributory retirement system, the evolution of the MASTERS Trust, and the steps we have taken over the last seven years to bring professional management to the investment of the Commonwealth's pension assets.

During my seven years as Treasurer, I have pressed to increase efficiency and demand maximum effectiveness in all areas for which I am responsible. We first brought this "business approach" to Treasury operations, and proved that better government can deliver improved services, at lower costs. Four years ago, I recommended a similar reform on the pension side by proposing the merger of MASTERS and PRIT. Massachusetts was the only pension system in the country with two pension funds serving the same set of beneficiaries. This resulted in inefficient investing of the funds, below optimal return on pension assets, and higher than necessary cost of operations. We estimated that we were paying $12 million in annual expenses that we could eliminate by merging the funds. Thanks to the efforts of the MASTERS Pension Investment Committee and staff, the PRIM Board and staff, Governor Weld, and the House and Senate leadership, the merger bill passed on July 31, 1996, and took effect on January 1, 1997.

The merger bill added two members to the PRIM Board, Angelo A. Amato, from the State Board of Retirement, and George F. McSherry, from the Teachers' Retirement Board. Mr.

Amato and Mr. McSherry bring many years of experience to PRIM, having served on their respective retirement boards and on the MASTERS Pension Investment Committee ("PIC"). In March, Governor Weld appointed Vikki L. Pryor to the Board; Ms. Pryor is an attorney and a Certified Public Accountant with a strong financial and operations background. And, we have recruited a professional staff headed by Executive Director R. Scott Henderson, who replaced Gregory A. White when Greg left in September to return to the private sector. I would like to extend my most heart-felt thanks to Greg for his many contributions to PRIM over the last five-and-a-half years, first as a Board member and, since 1994, as its Executive Director.

It is now incumbent upon the PRIM Board to keep the promises we made to our beneficiaries and to the taxpayers of the Commonwealth: to operate a more cost-efficient pension fund by reducing expenditures while still meeting our obligations to fully fund the public retirement system within the next 20 years.

The last six months of fiscal year 1997 brought remarkable achievements: we completed the merger process expeditiously and realized cost savings for the Fund that were even greater than we had projected. In that short time, the PRIM Board reduced the number of public markets portfolios by more than half and moved billions of dollars among asset classes to meet the Fund's asset allocation targets, with minimal transaction costs. Today, we have a streamlined manager roster that combines the most talented managers of the PRIT and MASTERS Trust funds. During the first six months of the merged operation we realized savings of more than $4.5 million, and for the first full year of merged operations, fiscal year 1998, we project savings of approximately $15 million.

Another commitment that the PRIM Board must meet is the recently adopted state pension funding schedule. Chapter 43 of the Acts of 1997, the fiscal 1998 state budget, requires the Commonwealth to fully fund the pension system by the year 2018. This shortened the original 40-year mandate by ten years and displays a commitment by state government to eliminate the unfunded pension liability more rapidly, a move unanimously supported by the PRIM Board.

Of course, the factor that plays the most vital role in keeping our promises for the future is investment performance. The MASTERS Trust's last year of operation, calendar year 1996, was outstanding; the total fund generated a 13.0% return. For the periods ending June 30, 1997, the PRIT Fund returned 21.78%, 18.62%, and 15.21%, on one, three, and five-year bases, respectively. Because of the pension initiatives we began in 1991, the MASTERS and PRIT Funds were well

positioned to take advantage of the bull market in U.S. stocks. Although we recognize that such high returns won't last forever, we are confident that over the long-term PRIT can match or exceed the 8.25% actuarial rate of return assumption in the state pension funding schedule. Since inception through the end of fiscal year 1997, PRIT has outdistanced the actuarial assumption by 4.45%. Over three years, we have surpassed the target by 10.37%, over five years, by 6.96%, and on a one year basis, our excess performance was 13.53% over the target return.

PRIT's relative performance to other public pension funds is also worth noting. According to the Trust Universe Comparison Service ("TUCS"), the most widely accepted benchmark for the performance of institutional assets, PRIT ranked in the top 15th percentile of public pension funds in the country for the fiscal year ending June 30, 1997. Our recent performance has consistently been in the top ranks: for periods ending June 30, 1997, PRIT's performance ranked in the top 1st percentile for two years, 21st percentile for three years, and 3rd percentile for four and five years. By comparison, PRIT ranked in the bottom 96th and 100th percentiles of TUCS for the three and five-year periods ending December 31, 1993, respectively.

Within Massachusetts, PRIT and certain local retirement systems that invest in the PRIT Fund also had the highest investment returns of the 107 public retirement systems during calendar year 1996. According to the Public Employee Retirement Administration Commission ("PERAC") Investment Report, the retirement systems investing all their assets with PRIT were ranked 1 through 12, 14, 19 and 20; the PRIT Fund ranked 16th. (The thirteen Participating Systems outperformed the PRIT Fund as a result of the pension funding appropriation they received from the state for fiscal 1996). Again, by comparison, in calendar years 1990 and 1991, PRIT ranked 103rd and 105th, respectively, in the PERA Investment Report.

In closing, I would like to thank the former MASTERS PIC members and staff, the PRIM Board members and staff, and the advisory committee members of both funds. Because of their efforts, we are well positioned to keep our promises to the beneficiaries and taxpayers of the Commonwealth.

Sincerely,

Joseph D. Malone

Joseph D. Malone, Chairman
Pension Reserves Investment Management Board
Treasurer and Receiver-General
The Commonwealth of Massachusetts

Message from the Executive Director

December 8, 1997

Dear Participants and Beneficiaries:

Since the early 1990's, the members of the PRIM Board and the MASTERS Pension Investment Committee have worked together, diligently and creatively, to safeguard the assets and improve the performance of the Commonwealth's retirement funds. Those efforts have been abundantly rewarded: led by their Chairman, Treasurer Joe Malone, and in a remarkably short time, the Board and the PIC brought the PRIT and MASTERS Trust funds to the top ranks of their public pension fund peers in efficiency, professionalism, and performance. This dramatic long-term improvement provided a solid foundation on which to merge the two funds, the signal accomplishment of fiscal year 1997.

The merger was literally unprecedented. No other state had two separate organizations investing pension assets for the same set of beneficiaries; accordingly, there was no model for what the Board and the PIC set out to do. Led by Executive Director Gregory White and Chief Investment Officer Collette Chilton, the PRIM and MASTERS staffs combined the assets and operations of two multi-billion pension funds, consolidated 60 public securities portfolios into 30, and implemented a long-term asset allocation plan, all in less than six months. Perhaps most remarkably, the merger was completed without any impairment to the short-term performance of the fund.

As the reports which follow illustrate, performance for both the PRIT and MASTERS Trust funds was exceptionally good – again. While we cannot take credit for the sustained bull market in U.S. equities, PRIM and MASTERS had implemented changes dating back several years to take advantage of the strong market environment. Looking ahead, the PRIT Fund's broadly diversified asset allocation strategy should continue to enhance performance while limiting risk over the long-term.

In short, the PRIT Fund's high-profile goals have been completed, and well. The challenge going forward is to keep the promises we have made to our beneficiaries and to the taxpayers of the Commonwealth: to provide prudent, efficient management; strong, long-term performance; and unbending adherence to our obligations as fiduciaries.

Sincerely,

R. Scott Henderson

R. Scott Henderson
Executive Director

Final Report of the MASTERS Trust, December 31, 1996

As a result of a sustained effort by Treasurer Joe Malone, on January 1, 1997 - the middle of fiscal year 1997 - the assets of the MASTERS Trust merged into the Pension Reserves Investment Trust ("PRIT"), ending the Treasurer's sole trusteeship under which the bulk of Massachusetts retirement systems' assets had long been managed. The merger, and the consequent termination of the MASTERS Trust, provide the occasion for reviewing the history and progress of the Massachsuetts public pension system.

Early "non-contributory" provisions. Although the Massachusetts State Teachers' and Employees' Retirement Systems ("MASTERS") Trust was created in 1989 under then-Treasurer Robert Q. Crane, its antecedents stretch back almost ninety years to two principal pieces of legislation: Chapter 532 of the Acts of 1911 established a retirement system for employees of the Commonwealth, and Chapter 832 of the Acts of 1913 established a retirement system for public school teachers. The Acts established the Treasurer as the sole trustee with full custodial and investment powers. The Treasurer was required to invest in a limited list of securities in accordance with state laws relating to the investment of savings bank funds. Aside from minimal employee "deposits", retirement benefit payments were the obligation of the government employer.

1945 - Massachusetts public employee contributory retirement law. On July 23, 1945, Governor Tobin signed legislation establishing a single contributory retirement law for all public employees in the Commonwealth. Chapter 658 of the Acts of 1945 (the "Contributory Retirement Law Act"), which took effect on January 1, 1946, inaugurated the modern state pension system by reorganizing and amending the provisions of Chapter 32 of the Massachusetts General Laws. The Contributory Retirement Law Act established the various state, county, and local retirement systems, including the Teachers' Retirement System. Although the Act explicitly excluded teachers hired by the City of Boston from the new contributory state teachers system, it did require the Commonwealth to reimburse the City of Boston for its teachers' pension obligations in accordance with an earlier statute, Chapter 521 of the Acts of 1922. The state has been responsible for the pension liabilities of Boston teachers ever since.

Investment management of the funds - the "legal list". The Contributory Retirement Law Act required the Treasurer, as sole trustee of the state retirement system, to invest the assets in a

somewhat expanded list of investments approved by the banking commissioner (the "legal list"), as follows:

- in fixed income obligations of the U.S. Government or its agencies;
- up to 20% in fixed income obligations of railroad companies;
- up to 35% in fixed income obligations of telephone companies;
- up to 50% in fixed income obligations of public service companies;
- up to 15% in fixed income industrial obligations; and
- up to 25% in stocks of banks and insurance companies.

The Act also expanded the oversight of pension investments by creating a three-member investment advisory committee (the "Pension Investment Committee" or "PIC"). The Treasurer served as chairman and member *ex officio*, along with the banking commissioner (also a member *ex officio*), and a third member with investment experience appointed jointly by the Treasurer and commissioner.

Rate of "regular interest". The Act required payroll withholdings from employees, which were recorded in separate accounts and reflected investment earnings as defined by the "regular interest" rate. That rate was based on a ratio of all investment income earned during the calendar year by each retirement system in relation to the total assets of those systems. Any earnings in excess of the average rate ("excess earnings") were applied annually to offset current disbursements. Deficiencies in the members' accounts had to be made up through appropriation by the state, county, or local government. Unfortunately, the use of "excess earnings" to reduce current pension payments, rather than to meet future obligations, worsened the unfunded condition of the retirement systems.

"Pay-as-you-go" funding. The Contributory Retirement Law Act was based on a decision to fund the retirement systems on a "pay-as-you-go basis"; that is, pension obligations were paid to retirees from current annual appropriations from the state's budget, rather than from money set aside to fund payments in the future. Accordingly, the law placed the burden of paying public employees' pensions benefits on future generations of taxpayers. As a result of the "pay-as-you-go" funding mechanism, a huge debt began to accumulate, and it continued to grow virtually unchecked for the next three decades. By the 1970's, it was clear that reform was necessary in order to save the state's pension funds from fiscal disaster.

1946-1977 - The growth of the unfunded pension liability. The Commonwealth did not begin to address the worsening unfunded pension liability until November 1977, when the

legislature appropriated $10 million to a pension reserve account for state employees and teachers. Budgetary appropriations were made in each subsequent fiscal year to this "pension reserve fund". By March of 1984, $164.2 million had been appropriated to the pension reserve fund and, including income generated by investments, the account had grown to approximately $400 million. By this time, the teachers' and employees' accounts had grown to $2 billion. In total, however, these accounts were only a fraction of the $6 billion estimated unfunded liability. More drastic reform was slow to emerge, in part because the state and local governments could always raise taxes to meet their rising pension obligations. That option, however, evaporated with the taxpayer revolt of 1980 and the enactment of "Proposition 2½".

1981 - The local systems cost-of-living adjustment liability. Proposition 2½ capped local governments' ability to increase property taxes at 2½% annually, and thereby put serious constraints on municipal budgets, undercutting their ability to fund cost-of-living allowances ("COLAs") for retired employees. Although the state legislature had the authority to set COLAs for state as well as local employees and teachers, the local retirement systems had the responsibility to fund the new expenses. After passage of Proposition 2½, the state assumed the funding of local COLA's on the premise that if the state mandated the expenditure, it should pay the cost. In 1981, a 3% COLA was approved in the fiscal year 1982 General Appropriations Act for all state and local retirees, to be paid for by the Commonwealth. In each subsequent year in which a COLA was approved, the Commonwealth assumed the current cost and the future liability for that portion of the local retirement systems' pension costs, thus substantially increasing Massachusetts' unfunded pension liability.

1983 - Chapter 661, the Pension Investment Reform Act. Although there were ways to override the provisions of Proposition 2½ on both the state and local levels, there was little willingness to do so. Instead, other options were devised to fill the pension funding gap. As part of the pension reform initiatives of the early 1980's, legislation was passed in 1983 that updated the forty-year old contributory retirement law's archaic investment provisions and required that all retirement systems establish pension reserve funds. That statute, Chapter 661 of the Acts of 1983 (the "Funding and Investment Reform Act"), was the first serious attempt by state government to address the unfunded pension liability crisis.

Chief among the reforms contained in the Funding and Investment Reform Act was the change from the "legal list" to the "prudent person rule" governing how the state's pension funds could be invested. The prudent person rule required that the Treasurer select investments for the

pension fund by "prudently" balancing expected risks and returns. In addition to these broadened investment powers, the state's pension reserve account, now called the Pension Reserves Investment Trust ("PRIT") Fund, was managed separately from the State Employees' and Teachers' Systems by a nine-member Pension Reserves Investment Management ("PRIM") Board, chaired by the Treasurer. On October 1, 1984, $442 million was transferred from the Employees' and Teachers' Retirement systems to establish the separate PRIT Fund.

1984-1987 - Establishment of investment trust funds. As a result of the broadened investment powers granted under the Funding and Investment Reform Act, in 1984, the State Treasurer, as Chairman of the Pension Investment Committee, established the Treasurer's Management Trust ("TMT"), which eventually served as the investment portfolio for common stocks, real estate, and venture capital assets of the Employees' and Teachers' Retirement systems. Later that year the Treasurer's Fixed Income Securities Trust ("TFIST") was established as the investment vehicle for the bond portfolio.

For the first time, steps were taken to develop investment objectives and asset allocation targets. And, also for the first time, external money managers were hired with discretion over how the assets of the TMT and TFIST would be managed. The Pension Investment Division of the State Treasurer's office continued to manage a substantial portion (approximately 80%) of the fixed income portfolio internally, as had been the practice for over 40 years.

1987 - Full funding schedule for the Commonwealth's total pension obligation. In late 1987, the legislature passed another historic piece of legislation to finally resolve the Commonwealth's unfunded pension liabilities. Chapter 697 of the Acts of 1987 established a 40-year funding schedule for eliminating the state's past service liabilities by the year 2028. Appropriations to meet the state's pension obligations were made to a new fund established under the law, the Commonwealth Pension Liability Fund ("CPLF"). For the first ten years of the funding schedule, the law required a minimum state appropriation to the pension system equal to the greater of current cost-of-benefits or the amount set forth in the funding schedule. At the time, the funded level of the Commonwealth's total pension obligation was only about 36%.

1988 - The state's fiscal crisis. Although the state's retirement systems seemed to be on a course to fiscal stability, the same could not be said for the state budget. In 1988, the much-heralded "Massachusetts Miracle" began to fall apart, plunging the Commonwealth into its worst financial crisis since 1975. Monthly expenditures were outstripping receipts, and in order to pay

the bills, some creative financing was devised. Between July and October of 1988, Governor Dukakis authorized and Treasurer Crane issued several hundred million dollars in short-term notes, which were purchased by the State Employees' and Teachers' Retirement Systems in order to save the state from defaulting on its monthly payments. Although these notes were repaid in full, plus interest, there was such an outcry in opposition to these loans, specifically from the Massachusetts legislature, that the practice was never repeated.

1989 - The establishment of the MASTERS Trust. On January 1, 1989, the TMT, TFIST, and the Treasurer's Cash Management Trust were consolidated into a single investment fund called the Massachusetts State Teachers' and Employees' Retirement Systems ("MASTERS") Trust. This combined fund, consisting of the State Employees' and Teachers' Annuity Funds, totaled approximately $5.1 billion on June 30, 1989. Six months later, the MASTERS Trust had expanded well beyond U.S. bonds: 43% of the fund was invested in domestic fixed income, 26% in domestic equity, 7% in international equity, 4% in a "balanced" (stock and bond) portfolio, 4% in international fixed income, 2% in international balanced, 4% in real estate, 2% in venture capital, 3% in cash equivalents, and 5% in "alternative investments". With the exception of the domestic fixed income portfolio, most of which was managed in-house, external managers were hired for all other asset classes.

1991 - Transition into a new administration. When newly elected Treasurer & Receiver-General Joseph D. Malone took office in January of 1991, the efficient management of the state's pension funds (both the MASTERS Trust and the PRIT Fund) became a top priority. Although MASTERS and its predecessor trusts had produced respectable returns, dramatic reform was needed to meet the Commonwealth's long-term pension obligations. Despite the growth in assets, the state's unfunded liability was still among the worst in the nation. According to the actuarial valuation performed by the Division of Public Employee Retirement Administration ("PERA"), dated January 1, 1990, the funded level of the Commonwealth's total pension obligation was only 42%; and that report did not take into account the funds' lackluster investment performance for 1990, which was well below the 8% actuarial rate of return assumption then required by the funding schedule.

Another major issue, one that had been basically ignored in the past, was the fact that the state was operating two pension funds – MASTERS Trust and PRIT – for the same set of beneficiaries. There was little communication or cooperation between the MASTERS staff and

PRIM staff, and a great deal of duplication, as each fund had separate internal or external managers, custodians, consultants, outside auditors, and other advisers.

Investment management outsourced. After extensive review of the Pension Investment Division at the Treasury, Treasurer Malone outlined steps to streamline operations, improve performance, and reduce operating expenses. The first major step was to review existing money managers and replace underperformers. A competitive bid process was developed in 1991 to select a new group of managers, replacing the less structured selection process used in the past. In 1993, management of the fixed income portfolio was outsourced to institutional asset managers in order to bring a more professional and disciplined approach to a fund that was growing to a substantial size. And, MASTERS staff began reviewing alternatives for revising the fund's asset allocation away from its heavy reliance on fixed income securities. Concerned about the inefficiency of operating two pension funds, Treasurer Malone focused on coordinating the efforts and investing process of the MASTERS Trust and PRIT. By 1994, the funds were sharing a general investment consultant and coordinating their asset allocation plans.

1992 - "In-State" investment initiatives. Beginning in 1992, with the advice of a blue-ribbon panel of local private sector investment and business professionals, MASTERS developed an in-state investment program, designed to generate market returns while benefiting the general economic climate of Massachusetts.

The first in-state investment was MASTERS' purchase of mortgage-backed securities through the Federal National Home Mortgage Association (Fannie Mae), directly supporting the Massachusetts residential mortgage market. The Fannie Mae program eased certain credit terms to give qualified borrowers a chance to realize the "American dream" of owning their own home. The "Middle Class American Dream Program" has been enormously successful, bringing benefits to the Massachusetts housing market and, more important, to the state pension fund. Approximately $300 million and 3,000 mortgages have been distributed to Massachusetts's citizens while the portfolio's investment returns outperformed the benchmark Lehman Aggregate Index. The program is currently being offered by Freddie Mac with authorization to issue up to $250 million of mortgages.

A second initiative was underwriting a multifamily low income housing rehabilitation project in the South End of Boston. The Massachusetts Housing Finance Authority had a project that needed financing, and was able to secure credit enhancement from the federal government.

MASTERS provided the debt financing for the project, then deposited the security with one of MASTERS' fixed income managers.

The most innovative in-state investment program was funded in 1995, when MASTERS and PRIM together established a venture capital fund with a mandate to invest in companies headquartered, or doing substantial business, in Massachusetts. With the assistance of the state's leading venture capitalists, including Peter Brooke of Advent International and Kevin Landry of TA Associates, the business community helped to develop the investment structure and recruit venture capitalists to manage the in-state venture fund. PRIM and MASTERS each committed $25 million to a Wellesley-based venture capital firm, Commonwealth Capital Partners. Since inception, Commonwealth Capital has made 16 investments in many different industries throughout the state.

Management and oversight of the MASTERS Trust. Although, as sole trustee, the Treasurer was authorized to make all decisions for the MASTERS Trust fund, Treasurer Malone directed all investment and operational matters to the Pension Investment Committee for review. He added financial expertise to the PIC by appointing Robert Glauber, a professor at Harvard who previously served as Undersecretary at the US Treasury Department. In mid-1994, the legislature added two members to the PIC: one elected teacher, George McSherry, and one elected state employee, Angelo Amato. With the membership of the PIC up to five people, the Treasurer developed an investment subcommittee to more efficiently explore investment-related issues. Members of the Investment Subcommittee were PIC member Robert Glauber; Allan Bufferd, Deputy Treasurer, Massachusetts Institute of Technology; and Gregory White, Executive Director of the PRIM Board.

Improved operations and increased efficiency. The MASTERS Trust realized significant savings through increased cooperation with PRIM. For example, in 1995, MASTERS transferred its Real Estate and Alternative Investment portfolios to PRIM, which was a more active investor in those asset classes. The transfer also partially satisfied a statutory requirement to transfer "excess earnings" between MASTERS and PRIT, transfers that in prior years had cost the funds as much as $3 million per year in brokerage commissions alone. As the performance of MASTERS Trust and PRIT improved, Treasurer Malone's plan to merge the two funds gained momentum, finally receiving legislative approval on July 31, 1996.

MASTERS TRUST Financial Summary

Financial Summary	Six Months Ending December 31, 1996	Year Ending June 30, 1996
Cash	$ 1,930,345	$
Investments	9,502,365,875	8,703,496,817
Receivables & Other Assets	118,894,308	102,394,046
Total Assets	9,623,190,528	8,805,890,863
Payable for Investment Purchases	178,841,817	90,375,236
Management Fee Payable & Other	5,538,673	11,820,489
Total Liabilities	184,380,490	102,195,725
Paid-in Capital	5,646,557,977	5,380,478,658
Accumulated net realized gains	2,401,263,956	2,232,702,553
Unrealized Appreciation on Investments	1,390,771,235	1,090,513,927
Undistributed net income	216,870	
Total Net Assets	$ 9,438,810,038	$ 8,703,695,138

MASTERS TRUST Performance Summary Period Ending December 31, 1996

Component of Portfolio	*MASTERS 1 Year*	Index 1 Year	*MASTERS 3 Year*	Index 3 Year	Index
Domestic Equity	21.05%	23.07%	17.77%	19.67%	S&P 500
International Equity	7.58%	6.05%	6.58%	8.32%	Morgan Stanley EAFE
Domestic Fixed Income	5.15%	3.61%	6.22%	6.02%	Lehman Brothers Aggregate Bond
Total MASTERS TRUST	12.69%	14.22%	11.24%	12.08%	TUCS Public Fund Median

Fund Performance - 1996. The MASTERS Trust's last year of operation, calendar year 1996, was outstanding; the total fund generated a 12.7% return, driven substantially by the domestic equity asset class, which contributed 21.1%. The next strongest asset class was international equity, which returned 7.6%. The fixed income return was 5.2%.

Over a long period, MASTERS Trust performed well, exceeding the actuarial return on investment target as presented below:

MASTERS Trust Performance

1 year	12.69%
3 year	11.24%
5 year	10.91%

Prior to the merger, MASTERS' asset allocation was heavily committed to U.S. bonds, a structure that minimized volatility. The U.S. stock allocation was closer to the average of other pension funds, but the international equity commitment was lower than average. As noted, real estate and alternative investments (venture capital and LBO funds) no longer existed in the Fund because of a decision in 1995 to transfer these assets to PRIT. As a result of this mixture, MASTERS' expected return was lower than the average of other pension funds.

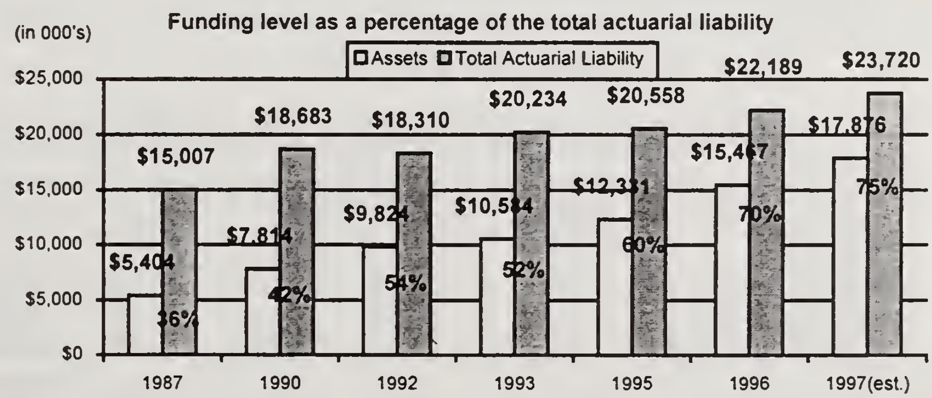
The New Fund. The merger of the MASTERS Trust and the PRIT Fund was effective January 1, 1997. MASTERS had assets of $9.5 billion and PRIT $8.5 billion for a combined fund of $18 billion at the time of the consolidation, which grew to just over $20 billion by the end of the fiscal year. The shift in the asset allocation as a result of the merger will increase the expected performance of the state's pension assets. Any increase in potential volatility will be more than compensated by the increase in expected return. The greatest shift, as a result of the new asset allocation, is to reduce the U.S bond allocation and increase international stocks, emerging markets stocks (a new asset class), real estate, and alternative investments. In every asset class, the PRIM Board completed an extensive review and approved a structure that reflects long-term performance expectations.

Savings Realized from the Merger. While the combined Fund has been operating as a merged entity for only a short period, it has already realized significant savings. For the first six months of 1997 (January through June) we reaped savings of more than $4.5 million (which reflects the fact that the Fund will phase in the savings from the merger). During fiscal 1998 (July

1, 1997 to June 30, 1998), we will realize a full year's savings of approximately $15 million, significantly more than the original projected savings of $12 million.

The merger is generating savings in three areas. First, for fiscal 1998, we will save almost $9 million in payments to our external public securities managers as a result of increasing the average size of assets under management, reallocating assets, and negotiating more competitive fees. Second, by eliminating the need to transfer assets between MASTERS and PRIM - a statutory requirement referred to as "excess earnings" transfer – we will avoid commissions and other expenses of approximately $4.25 million in fiscal 1998. Finally, the new PRIT Fund is reducing its consultant, custodian, and operating expenses by approximately $1.5 million. As a result of these savings and our low cost of operations, PRIM projects that it will cost PRIM approximately 3/10 of 1% of the Fund to run the merged operation. This represents a substantial reduction over PRIM's past operating costs, which were as high as 6/10 of 1% in 1991.

The Unfunded Liability of the Pension System. While Massachusetts has benefited from positive pension fund performance and effective fiscal management, the state still has a substantial unfunded liability. The good news, however, is that over the past six years, the funded level (the amount of asset available to meet current and all future pension obligations) has grown from below 50% to approximately 75%.



The challenge persists. We still have 25%, or $6 billion, to accumulate before the pension system is fully funded. Consequently, the new PRIT Fund must continue to press for aggressive, yet prudent, returns on its investments.

PRIT Fund Financial Summary

Financial Summary	Year Ending June 30, 1997	Year Ending June 30, 1996
Cash	$ 65,937,664	$ 5,905,294
Investments	20,331,058,879	7,836,475,543
Receivables & Other Assets	207,367,051	122,664,160
Total Assets	20,604,363,594	7,965,044,997
Payable for Investment Purchases	435,139,541	169,661,399
Management Fee Payable & Other	58,351,075	18,774,621
Total Liabilities	493,490,616	188,436,020
Fund Units	11,681,153,428	5,994,385,247
Undistributed Net Investment Income	666,840,113	260,785,531
Undistributed Net Realized Capital Gains	5,208,980,420	565,678,520
Net Unrealized Appreciation on Investments	2,553,899,017	955,759,679
Total Net Assets	$20,110,872,978	$7,776,608,977
One Year Return	21.78%	19.41%
Return Since Inception	12.70%	11.95%
Operating Expenses as % of Fund	0.33%	0.44%

PRIT Fund Performance Summary Period Ending June 30, 1997

Component of Portfolio	*PRIT 1 Year*	Index 1 Year	*PRIT 3 Year*	Index 3 Year	Index
Domestic Equity	28.91%	34.56%	26.83%	28.83%	S&P 500
International Equity	19.85%	12.84%	12.64%	9.12%	Morgan Stanley EAFE
Domestic Fixed Income	11.23%	8.16%	10.66%	8.53%	Lehman Brothers Aggregate Bond
International Fixed Income	9.76%	2.09%	10.55%	6.19%	Salomon Brothers World Gov't Bond Unhedged
Real Estate	12.67%	10.75%	10.74%	9.01%	Russell NCREIF Index
Alternative Investments	33.88%	38.98%	22.09%	32.98%	S&P 500 +450 bp for special equity and +500 for venture capital
Total PRIT Fund	21.78%	20.00%	18.62%	17.50%	TUCS Public Fund Median

PRIT Annual Report Overview

The PRIT Fund

The Pension Reserves Investment Trust ("PRIT") Fund is a pooled investment fund established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, and the assets of county, authority, district, and municipal retirement systems that choose to invest in the Fund. The PRIT Fund was created in December 1983 by the Legislature (chapter 661, acts 1983) with a mandate to accumulate assets through investment earnings and other revenue sources in order to reduce the Commonwealth's significant unfunded pension liability, and to assist local participating retirement systems in meeting their future pension obligations. The PRIT Fund merged with the Massachusetts State Teachers' and Employees' Retirement System ("MASTERS") Trust on November 7, 1996, in accordance with Chapter 315 of the Acts of 1996. As of June 30, 1997, the assets of the PRIT Fund exceeded $20 billion. The Pension Reserves Investment Management ("PRIM") Board is charged with the general supervision of the PRIT Fund.

PRIM's mission is to maximize the return on investment within acceptable levels of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, providing access to high quality, innovative investment management firms, all under the management of professional staff and members of the Board.

The PRIT Fund consists of two investment funds: the Capital Fund and the Cash Fund. Cash, deposited and invested on a temporary basis, is transferred monthly from the Cash Fund to the Capital Fund. Once in the Capital Fund, funds are invested and reinvested across all asset classes under PRIM's long-term investment guidelines and asset allocation. The Capital Fund serves as the long term asset portfolio and consists of nine accounts: General Allocation Account (which is comprised of the other accounts, except the State Teachers' and Employees' Separate Account), Domestic Equity, Fixed Income, International Equity, Emerging Markets Equity, Core Real Estate, Non-core Real Estate, Alternative Investments, and the State Employees' and Teachers' Separate Account (which holds the State Employees' and Teachers' investment in the Massachusetts Technology Development Corporation).

Chapter 84 of the Acts of 1996 explicitly confirms retirement boards' authority to purchase units in the separate investment accounts of the PRIT Fund as an alternative to investing in the aggregate. Fund. This investment option, also referred to as "Segmentation", was

established by amendment to the Operating Trust in 1994 in response to requests from Massachusetts retirement boards wishing to invest in one or more separate asset classes of the PRIT Fund. Phase I of Segmentation became available on July 1, 1997 and includes investments in the PRIT Fund's domestic equity, international equity, and fixed income accounts. Phase II encompasses PRIM's emerging markets, core real estate, and "vintage year" alternative investments accounts, starting January 1, 1998.

The PRIT Portfolio

The PRIT Core

Fiscal year 1997 was an extraordinary investment period for the PRIT Fund. The strong rise in the US stock market that began in 1995 continued to produce precedent-setting performance through the middle of 1997. Strong returns in the foreign bourses, specifically Europe and the emerging markets, played a prominent role in the success that PRIT experienced this past fiscal year. High returns in the private markets portfolios also were a boon to the Fund.

For the year ending June 30, 1997, the PRIT Core returned 21.78%. For the three and five year periods ending June 30, 1997, the Core returned 18.62% and 15.21%, respectively. PRIT's annualized return since inception (January 1, 1985 through June 30, 1997) was 12.70%. These returns compare favorably to PRIT's most important benchmark, the 8.25% rate of return target in the Commonwealth's pension funding schedule.

The Public Markets Portfolio

Domestic Equity. As of June 30, 1997, PRIT's domestic equity portfolio represented 48% of the Fund. For the year ending June 30, 1997, the domestic equity portfolio produced an exceptional return of 28.91%. As PRIT's domestic equity portfolio reflects the capitalization of the broad stock market (70% large company stocks and 30% small company stocks), the aggregate return of PRIT's domestic equity managers compares well compared to its benchmarks. The large cap S&P 500 Index returned 34.56%, and the small cap Russell 2000 Index returned 16.33%, for the same period.

Large cap, or "blue chip", stocks outperformed the smaller issues during fiscal year 1997. However, PRIT's active small cap managers outperformed the Russell 2000 Index by 384 basis points. During the fiscal year, the PRIM Board significantly reduced active management in favor

of a passive strategy on the large cap side. As a result, approximately 80% of the large cap segment was indexed, designed to replicate the return of the bellwether S&P 500 Index; most large cap active managers lagged the index during this period.

Fixed Income. Approximately 25% of the Fund was invested in fixed income securities as of June 30, 1997; of that, all but 2% was invested in domestic issues. (At the end of the fiscal year, the PRIM Board eliminated global fixed income as a separate asset class. Currently, the fixed income portfolio consists predominately of domestic bonds, although certain managers have some flexibility to invest internationally. For the purposes of this report, returns for the fixed income portfolio reflect both domestic and international components.) For the year ending June 30, 1997, the domestic fixed income portfolio returned 11.23%, compared to the Lehman Aggregate Bond Index's 8.16%. PRIT beat the benchmark, in part, because of the high yield and convertible bond components of the portfolio. For the same period, the high yield managers produced a return of 16.28%, and the convertible bond manager returned 22.02%. The Fund's prudent exposure to these specialty categories, approximately 13% of the fixed income portfolio, reduced overall risk and boosted returns. On the global bond side, PRIT's managers returned 9.76% for the fiscal year, well above the portfolio benchmark return of 2.09%.

International Equity. International equity comprised approximately 19% of the Fund on June 30, 1997. (During the fiscal year, the PRIM Board voted to extract the emerging markets segment from the portfolio to form a stand-alone asset class, as of July 1, 1997. Currently, the international equity portfolio consists solely of a Europe, Australasia, Far East (or "EAFE") mandate. In April 1997, the PRIM Board eliminated Tactical Asset Allocation, or global equity, as an asset class, and terminated the single manager charged with that mandate, which had substantially underperformed its benchmark. For the purposes of this report, returns for the international equity portfolio reflect both the EAFE and emerging markets components).

For the year ending June 30, 1997, the international equity portfolio returned 19.85%. At fiscal year-end, approximately 85% of the portfolio was invested in the EAFE countries, with the remainder in emerging markets. PRIT's international equity managers, including emerging markets managers, outperformed the EAFE Index by 701 basis points in fiscal year 1997.

The Private Markets Portfolio

Alternative Investments. Alternative investments was the PRIT Fund's best performing asset class, producing an outstanding twelve month return of 33.88%. As of June 30, 1997, the alternative investments portfolio comprised 3.9% of the Fund: 2.4% in special equity (buy-outs, consolidation, expansion capital) and 1.5% in venture capital ("young" growing companies, usually technology based). For the year ending June 30, 1997, the special equity and venture capital components returned 32.40% and 42.88%, respectively. Although there is no definitive standard industry benchmark to measure the relative performance of alternative investments the PRIM Board expects its special equity and venture capital portfolios to exceed the S&P 500 Index by 4.5% and 5.0%, respectively, over the long-term.

Real Estate. On June 30, 1997, almost 4% of the Fund was invested in real estate. For the fiscal year, real estate returned 12.67%, beating the National Council of Real Estate Investment Fiduciaries ("NCREIF") Index, which returned 10.75%. On three and five-year bases for the period ending June 30, 1997, PRIT's real estate portfolio returned 10.74% and 6.95%, respectively. Again, those returns outperformed the NCREIF Index, which returned 9.01% and 4.88% for those periods. The real estate portfolio's improved performance is due largely to the new investments made as part of the "core" strategy separate account program and the disciplined sale of "non-core" assets. PRIT's conservative "core" approach is expected to produce a return of 7.5% over the long-term.

Cutting Costs

In this year's annual report, the PRIM Board presents management fees in two ways: 1) including "investment level", or "non-cash-management" payments, and 2) excluding such payments. Most investment management fees for alternative investments and real estate are charged by the managing general partners to the investment partnership and not to the limited partner investors (e.g., PRIM) directly. Therefore, these partnerships incur the expense and report income to the limited partners <u>net</u> of those fees. Most pension funds do not include these non-cash management fees as part of their overall costs. Historically, PRIM has reported all investment management fees, including those charged at the partnership level, as part of its operating expenses, making cost comparisons with other funds more difficult.

Costs for fiscal 1997 <u>inclusive</u> of all investment management, custodial, consulting, and overhead expenses (the total PRIM operating budget) were 34 basis points (0.34%) of the average

net asset value of the PRIT Fund. In fiscal 1996, the cost was 44 basis points. This dramatic decrease was due to the savings realized from the consolidation of the PRIT Fund and MASTERS Trust.

More than 90% of the total PRIM/PRIT operations budget was comprised of fees to external investment in fiscal 1997. Nearly 35% percent of those fees were attributed to alternative investments and real estate. Excluding these "non-cash" management fees (as most public pension funds do), the total cost of operation for fiscal 1997 was 23 basis points.

The PRIM Board

The PRIM Board acts as Trustee for each retirement system that invests in the PRIT Fund and is responsible for the control and management of the Fund. Effective November 7, 1996, the PRIM Board consists of the Governor, ex officio, or his designee; the State Treasurer, ex officio, or his designee who serves as Chairman of the Board; a private citizen experienced in the field of financial management appointed by the State Treasurer; an employee or retiree who is a member of the State Teachers' Retirement System elected by the members of such system; an employee or retiree who is a member of the State Retirement System elected by the members of such system; the elected member of the State Retirement Board; one of the elected members of the Teachers Retirement Board, chosen by the members of the Teachers Retirement Board; a person who is not an employee or official of the Commonwealth appointed by the Governor; and a representative of a public safety union appointed by the Governor.

Joseph D. Malone, Chairman, Ex Officio Member
State Treasurer & Receiver-General, Commonwealth of Massachusetts

Thomas H. Trimarco, Chairman's Designee
First Deputy Treasurer, Commonwealth of Massachusetts

Angelo A. Amato, State Board of Retirement Member,
Retired, Massachusetts Department of Public Works

Robert Brousseau, Elected Member, State Teachers' Retirement System Representative
Retired Teacher, Town of Wareham Public School System

James B.G. Hearty, Designee of the Governor, Ex Officio Member
Managing Director, Lehman Brothers

Glenn M. Johnson, Vice Chairman, Appointee of the State Treasurer,
Private Citizen, Investment/Business Field
Managing Director, Lightship Capital Advisors

George F. McSherry, Teachers' Retirement Board Member,
Retired Teacher, City of Brockton Public School System

Daniel J. O'Neil, Appointee of the Governor, Public Safety Organization Representative
President, Massachusetts Correction Officers Federated Union

Vikki L. Pryor, JD, CPA, Appointee of the Governor,
Non-State Employee or Official

Ralph White, Elected Member, State Employees' Retirement System Representative
President, Retired State, County and Municipal Employees
Association of Massachusetts

The PRIM Board Staff

The PRIM Board employs a professional staff to manage the day-to-day operations of the Fund and report to the Board.

Gregory A. White (Resigned effective 9/24/97)
Executive Director

R. Scott Henderson
Executive Director and General Counsel

Collette D. Chilton
Chief Investment Officer

Steven N. Costabile
Senior Investment Officer, Alternative Investments

Sally M. Dungan
Senior Investment Officer, Public Markets

Keirsten N. Lawton
Investment Analyst

John F. Leahy
Staff Accountant

Patricia L. Lewis
Office Manager

Patricia A. MacDonald
Administrative Assistant

Jeffrey G. Maguire (Resigned effective 9/30/97)
Senior Investment Officer, Real Estate

David S. McMahon
Senior Participant Accountant

Douglas W. Moseley
Proxy and Governance Analyst

Mary J. Pierotti
Administrative Assistant

Paul W. Todisco
Client Services Officer

Gerri Anne Underwood
Accounting Manager

Bradford B. Wakeman, CPA
Chief Financial Officer

Kenneth M. Wisdom
Senior Investment Analyst

Advisory Committees of the PRIM Board

The Chairman of the PRIM Board has established advisory committees to provide a broad range of advice to the Board. These committees include Board members, representatives from participating or purchasing retirement systems, and private citizens from the investment or business community. Currently, there are four working advisory committees: Administration and Audit, Investment, and Real Estate. The committees have contributed important insights for PRIM's internal operations and external asset management.

Administration and Audit Committees

Robert Brousseau, Chairman, Administration Committee
Board Member

George F. McSherry, Chairman, Audit Committee
Board Member

Theodore C. Alexiades
Town Accountant, Hingham Retirement Board

Richard P. Foley (Audit Committee only)
Town Accountant, Reading Retirement Board

Frank Lagrotteria
Weymouth Retirement Board

Investment Committee

James B.G. Hearty, Co-Chair
Board Member

Professor Robert Glauber, Co-Chair
JFK School of Government, Harvard University

Thomas H. Trimarco
First Deputy Treasurer

Ralph White
Board Member

Allan Bufferd
Deputy Treasurer/Director of Investments
Massachusetts Institute of Technology

Thomas Craig
Director, Monitor Company

Jack R. Meyer
Harvard Management Company
President and Chief Executive Officer

Real Estate Committee

Glenn M. Johnson, Co-Chair
Board Member

Ralph White, Co-Chair
Board Member

Angelo A. Amato
Board Member

Daniel J. O'Neil
Board Member

Charles Kenny
Chairman, Whittier Partners

Richard W. Lewis
AEW Capital Management

William F. McCall, Jr.
McCall & Almy, Inc.

Member State and Municipal Retirement Systems

A governmental retirement system within the Commonwealth may elect to invest in the PRIT Fund by vote of its board. The board may choose to invest as a *Participating System* or a *Purchasing System* in the Fund. Participating systems qualify for funds appropriated by the Commonwealth to reduce the unfunded pension liability. By joining PRIT, retirement systems share in the benefits of PRIT's professional portfolio structure, including its variety of investment opportunities. Although there was no appropriation made in fiscal year 1997 to reduce the unfunded pension liabilities of the 13 eligible Participating Retirement Systems, pursuant to M.G.L., chapter 32, section 22B, an appropriation of $4,891,074 was contained in the Fiscal Year 1998 State Budget (Chapter 43 of the Acts of 1997).

Member State and Municipal Retirement Systems
as of June 30, 1997

*Belmont Retirement Board**
*Berkshire County Retirement Board**
*Brookline Retirement Board**
*Concord Retirement Board**
Dedham Retirement Board
*Dukes County Retirement Board**
Fairhaven Retirement Board
*Framingham Retirement Board**
Gardner Retirement Board
*Greenfield Retirement Board**
Hingham Retirement Board
*Marblehead Retirement Board**
*Massachusetts Water Resources Authority Retirement Board**
Milton Retirement Board
Minuteman Regional Vocational Technical School Retirement Board
Montague Retirement Board
Needham Retirement Board
*New Bedford Retirement Board**
Northbridge Retirement Board
*Quincy Retirement Board**
Reading Retirement Board
*Revere Retirement Board**
Saugus Retirement Board
Wakefield Retirement Board
Weymouth Retirement Board
*Woburn Retirement Board**
State Employees Retirement Board
State Teachers Retirement Board

*Purchasing System

Investment Managers and Advisors, as of June 30, 1997

The PRIM Board retains outside managers to invest the PRIT Fund assets according to the Fund's asset allocation and investment guidelines. Most of the Fund's managers are compensated under various "performance fee" agreements, which reduce base management fees while rewarding exceptional investment returns.

Domestic and International Equity Managers

Brown Capital Management, Inc., Baltimore, MD
Capital Guardian Trust Company, Los Angeles, CA
Capital Technology, Inc., Charlotte, NC
Dimensional Fund Advisors, Santa Monica, CA
Emerging Growth Management, San Francisco, CA
Emerging Markets Management, Washington, DC
Fidelity Management Trust Company, Boston, MA
Lazard Freres Asset Management, New York, NY
Marathon Asset Management, London
Massachusetts Financial Services Company, Boston, MA
Numeric Investor's, L.P., Cambridge, MA
Pareto Partners, London
Putnam Advisory Company, Boston, MA
State Street Global Advisors, Boston, MA
ValueQuest, Ltd., Marblehead, MA

Fixed Income Managers

BZW Barclays Global Investors, San Francisco, MA
Danson & Neuhar, Culver City, CA
Fidelity Management Trust Company, Boston, MA
Froley, Revy Investment Company, Inc., Los Angeles, CA
GW Capital Inc., Bellevue, WA
Income Research & Management, Boston, MA
Loomis, Sayles & Co., Boston, MA
Pacific Investment Management Co., Newport Beach, CA
Putnam Advisory Company, Boston, MA
Solon Asset Management, Walnut Creek, CA

Real Estate Managers

Core Strategy Separate Account Managers:

Equitable Real Estate Investment Management, Atlanta, GA
Invesco Realty Advisors, Dallas, TX
LaSalle (ABKB), Chicago, IL
RREEF, San Francisco, CA

Non-Core Commingled and Separate Account Managers:

Aldrich, Eastman & Waltch, Boston, MA
Allegis Realty Investors LLC, Hartford, CT
Bear Stearns, New York, NY
Boston Financial Group, Boston, MA
Copley Real Estate Advisors, Inc., Boston, MA
Hancock Realty Advisors, Boston, MA
Heitman/JMB Advisory Corp., Chicago, IL
L&B Real Estate Counsel, Dallas, TX
Meridian Point Realty Trust VIII, San Francisco, CA
Shurgard Realty Advisors, Inc., Seattle, WA
Sierra Capital Corporate Advisors, Inc., San Francisco, CA
SSR Realty Advisors, Inc., White Plains, NY
TA Associates Realty, Boston, MA
TCW Realty Advisors, Los Angeles, CA

Domestic and International Venture Capital and Special Equity Partnerships

Advent International, Boston, MA
Alan Patricof Associates, Ltd., New York, NY
Asia Pacific Trust, Hong Kong
Belmont Capital Partners II Fund, Boston, MA
Beta Partners, New York, NY
The Blackstone Group, New York, NY
Wm. Blair Mezzanine Capital Management, Chicago, IL
Boston Ventures Management, Inc., Boston, MA
Capital Resource Lenders, Boston, MA
Citicorp Venture Capital, London
Clayton Dubilier, New York, NY
Commonwealth Bioventures, Inc., Worcester, MA
Commonwealth Capital Partners, Wellesley, MA
Crossroads, Hartford, CT
Davis Ventures Partners, Tulsa, OK
Dominion Ventures, San Francisco, CA
Donaldson, Lufkin & Jenrette Merchant Banking Part., New York, NY
1818 Fund, Brown Brothers Harriman & Co., New York, NY
Equitable Capital Management Corp., New York, NY
Forstmann Little & Co., New York, NY
Freeman Spogli Equity Partners, Los Angeles, CA
Frontenac, Chicago, IL
Golder, Thoma and Cressey, Chicago, IL
Hancock Venture Capital Management, Inc., Boston, MA
Hellman & Friedman Capital Partners, Los Angeles, CA

Domestic and International Venture Capital and Special Equity Partnerships (Continued)

Joseph Littlejohn & Levy Fund, New York, MA
Kohlberg, Kravis & Roberts and Co., New York, NY
Landmark Equity Partners, New York, NY
Madison Group, L.P., Westport, CT
Massachusetts Technology Development Corp., Boston, MA
Media Communications, Boston, MA
Menlo Ventures, Menlo Park, CA
MFA/MASTERS, Boston, MA
Morgan Holland Partners, Boston, MA
Narragansett, Providence, RI
Nash, Sells & Partners, Ltd., London
New Enterprise Associates, Baltimore, MD
Prudential, New York, NY
Schroder Ventures, London
Smith Offshore Exploration Co., Houston, TX
Southern California Ventures, Sherman Oaks, CA
Spectrum Equity Partners, Boston, MA
TA Associates, Boston, MA
Texas Pacific Group, Fort Worth, TX/San Francisco, CA
Thomas H. Lee Equity Partners, L.P., Boston, MA
Venture Capital Fund of New England, Boston, MA
Vestar Capital Partners, New York, NY
Vista Partners, New Canaan, CT
Welsh Carson Anderson & Stowe, New York, NY
Willis Stein, Chicago, IL

The PRIM Board retains outside advisors to assist in allocating the fund's assets, monitoring existing investments, evaluating new opportunities, and operating the Fund.

Fund Advisors:

Private Market

Pathway Capital Management, Irvine, CA

Real Estate

The Townsend Group, Cleveland, OH
Morris and Morse Company, Inc., Boston, MA

General Investments/Strategy

Wilshire Associates, Inc., Santa Monica, CA

Independent Accountants

Coopers & Lybrand, LLP, Boston, MA

Custodian:

State Street Bank & Trust Company, Boston, MA

Chapter 32, Section 22(8) of the Massachusetts General Laws establishes the PRIT Fund. The Fund is administered by the PRIM Board, which is established under Chapter 32, Section 23(2A) of the Massachusetts General Laws. In addition, the Board oversees the Fund under the terms of its operating trust dated June 28, 1994.

The PRIM Board is an authority of the Commonwealth of Massachusetts. Its offices are located in Boston, Massachusetts.

All correspondence may be directed to:

Pension Reserves Investment Management Board
125 Summer Street, 10th Floor
Boston, MA 02110

Telephone:	*(617) 946-8415*
Facsimile:	*(617) 946-8475*
Internet:	**http://www.mapension.com**

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Financial Statements
December 31, 1996

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Index to Financial Statements

Six months ended December 31, 1996

Financial Statements

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Financial Statements

The Auditor's Report dated August 1, 1997 and the detailed Schedule of Investments of the Massachusetts State Teachers' and Employees' Retirement Systems Trust as of December 31, 1996 may be obtained by contacting the Pension Reserves Investment Management Board or on their web sight at WWW.MAPENSION.COM.

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Statements of Assets and Liabilities

December 31, 1996
(with comparative summary totals as of June 30, 1996)

	December 31, 1996			June 30, 1996
	Capital Fund	Cash Fund	Total	Total
Assets				
Investments at market value:				
Domestic equities	$4,527,002,449		$4,527,002,449	$4,129,821,442
Limited partnership investments	50,532,850		50,532,850	50,829,950
Pooled investment funds	179,950,594		179,950,594	77,604,869
Pooled money market funds	305,148,559	$75,756,934	380,905,493	333,865,288
Corporate bonds	945,479,801		945,479,801	1,007,734,408
Collateralized mortgage obligations	194,530,420		194,530,420	96,423,104
Municipal bonds	66,035,309		66,035,309	2,457,705
U.S. Government and government agency securities	2,151,544,292		2,151,544,292	2,120,061,402
Foreign securities	1,006,384,667		1,006,384,667	884,698,649
Total investments	9,426,608,941	75,756,934	9,502,365,875	8,703,496,817
Cash	1,930,345		1,930,345	
Foreign currency, at market value (cost of $15,832,923 at December 31, 1996 and $2,352,672 at June 30, 1996)	15,230,616		15,230,616	2,313,960
Receivable for investments sold	46,544,395		46,544,395	45,416,955
Net receivable for forward foreign currency exchange contracts sold	1,032,320		1,032,320	492,013
Dividends, interest and other receivables	56,086,977		56,086,977	54,171,118
Total assets	9,547,433,594	75,756,934	9,623,190,528	8,805,890,863
Liabilities				
Amount payable to bank				5,982,248
Payable for investments purchased	178,841,817		178,841,817	90,375,236
Net payable for forward foreign currency exchange contracts purchased	253,576		253,576	846,687
Reverse repurchase agreement				627,856
Dividends payable				1,447,865
Accrued expenses and other liabilities	5,285,097		5,285,097	2,915,833
Total liabilities	184,380,490		184,380,490	102,195,725
Net assets	$9,363,053,104	$75,756,934	$9,438,810,038	$8,703,695,138
Cost of investments	$8,036,078,081	$75,756,934	$8,111,835,015	$7,612,604,091

Massachusetts State Teachers' and Employees'
Retirement Systems Trust

Statements of Assets and Liabilities (continued)

December 31, 1996
(with comparative summary totals as of June 30, 1996)

	December 31, 1996 (Unaudited)			June 30, 1996
	Capital Fund	**Cash Fund**	**Total**	**Total**
Net assets consist of the following:				
Paid-in capital	**$5,570,801,043**	**$ 75,756,934**	**$5,646,557,977**	$5,380,478,658
Accumulated net realized gain on investments and foreign currency transactions	**2,401,263,956**		**2,401,263,956**	2,232,702,553
Unrealized appreciation of investments and translation of assets and liabilities in foreign currencies	**1,390,771,235**		**1,390,771,235**	1,090,513,927
Undistributed net investment income	**216,870**		**216,870**	
Total net assets	**$9,363,053,104**	**$ 75,756,934**	**$9,438,810,038**	$8,703,695,138
Units of participation outstanding owned by:				
Commonwealth of Massachusetts State Employees' Annuity Fund	**28,467,327**	**9,414,143**		
Commonwealth of Massachusetts State Teachers' Annuity Fund	**31,551,080**	**66,342,791**		
Total units of participation outstanding	**60,018,407**	**75,756,934**		
Net Asset Value, Offering Price and Redemption Price per Unit	**$156.00**	**$1.00**		

See accompanying notes.

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Statements of Operations

Six Months Ended December 31, 1996
(with comparative summary totals for the year ended June 30, 1996)

	Six Months Ended December 31, 1996			Year Ended June 30, 1996
	Capital Fund	**Cash Fund**	**Total**	**Total**
Investment income:				
Interest	$123,805,390	$2,930,766	$126,736,156	$ 241,822,805
Dividends	40,887,589		40,887,589	88,456,548
Income from partnerships, real estate holdings and venture capital funds	1,748,408		1,748,408	3,207,012
Securities lending income	670,892		670,892	515,463
Other	156,613		156,613	766,482
Total investment income	167,268,892	2,930,766	170,199,658	334,768,310
Expenses:				
Investment management fee	10,556,825		10,556,825	15,574,677
Custodian fee	424,729		424,729	720,759
Provision (recovery) for fixed income securities				(2,891,894)
Other operating expenses	225,344		225,344	1,139,288
Total expenses	11,206,898		11,206,898	14,542,830
Net investment income	156,061,994	2,930,766	158,992,760	320,225,480
Realized and unrealized gain on investments and foreign currency:				
Net realized gain on investments and foreign currency transactions	168,561,403		168,561,403	539,770,670
Net increase in unrealized appreciation of investments and translation of assets and liabilities in foreign currencies	300,257,308		300,257,308	322,242,897
Net realized and unrealized gain on investments and foreign currency	468,818,711		468,818,711	862,013,567
Net increase in net assets resulting from operations	$624,880,705	$2,930,766	$627,811,471	$1,182,239,047

See accompanying notes.

Massachusetts State Teachers' and Employees'
Retirement Systems Trust

Statements of Changes in Net Assets

Six Months Ended December 31, 1996
(with comparative summary totals for the year ended June 30, 1996)

	Six Months Ended December 31, 1996			Year Ended June 30, 1996
	Capital Fund	Cash Fund	Total	Total
Increase (decrease) in net assets:				
Operations:				
Net investment income	$ 156,061,994	$ 2,930,766	$ 158,992,760	$ 320,225,480
Net realized gain on investments and foreign currency transactions	168,561,403		168,561,403	539,770,670
Net increase in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	300,257,308		300,257,308	322,242,897
Net increase in net assets resulting from operations	624,880,705	2,930,766	627,811,471	1,182,239,047
Dividends to unitholders from net investment income	(155,845,124)	(2,930,766)	(158,775,890)	(323,887,468)
Trust unit transactions:				
Proceeds from units sold	132,145,995	229,930,543	362,076,538	568,390,281
Proceeds from reinvestment of dividends	157,292,989	2,930,766	160,223,755	322,439,603
Payments for units redeemed	(22,538,797)	(233,682,177)	(256,220,974)	(763,733,535)
Net increase (decrease) from Trust unit transactions	266,900,187	(820,868)	266,079,319	127,096,349
Net increase (decrease) in net assets	735,935,768	(820,868)	735,114,900	985,447,928
Net assets at beginning of period	8,627,117,336	76,577,802	8,703,695,138	7,718,247,210
Net assets at end of period	$9,363,053,104	$ 75,756,934	$9,438,810,038	$8,703,695,138
Number of units:				
Outstanding at beginning of period	58,248,994	76,577,802		
Sold	865,373	229,930,543		
Issued on reinvestment of dividends	1,052,703	2,930,766		
Redeemed	(148,663)	(233,682,177)		
Units outstanding at end of period	60,018,407	75,756,934		

See accompanying notes.

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Financial Highlights

(For a unit outstanding throughout the period)

	Capital Fund					
	Six months ended December 31		**Year ended June 30**			
	1996	**1996**	**1995**	**1994**	**1993**	**1992**
Net asset value, beginning of period	**$148.11**	$133.46	$124.72	$ 124.68	$ 117.12	$ 109.43
Income from investment operations						
Net investment income	**2.63**	5.44	5.39	5.77	5.75	6.20
Net realized and unrealized gain (loss) on securities and foreign currency	**7.89**	14.71	12.60	(0.16)	7.92	7.45
Total from investment operations	**10.52**	20.15	17.99	5.61	13.67	13.65
Dividends from net investment income	**(2.63)**	(5.50)	(9.25)	(5.57)	(6.11)	(5.96)
Net asset value, end of period	**$156.00**	$148.11	$133.46	$ 124.72	$ 124.68	$ 117.12
Total return †	**7.21%**	15.37%	15.14%			
Ratios/Supplemental Data						
Net assets, end of period (in thousands)	**$9,363,053**	$8,627,117	$7,706,013	$7,105,262	$7,232,053	$6,305,945
Ratio of expenses to average net assets	**.25%**[1]	0.18%‡	0.29%‡	0.19%	0.21%	0.30%
Ratio of net investment income to average net assets	**3.52%**[1]	3.82%	4.35%	4.49%	4.76%	5.22%
Portfolio turnover rate	**47%**	109%	189%			

† Total return based on per share net asset value reflects the effects of changes in net asset value on the performance of the Trust during the period, and assumes dividends, if any, were reinvested. Results represent past performance and do not guarantee future results. Investment returns and principal may fluctuate and units, when redeemed, may be worth more or less than original cost. Total return had not been calculated in years prior to fiscal year 1995. Total return for periods of less than one year have not been annualized.

‡ Excluding the provision for fixed income securities in 1995 and the related recovery in 1996, the ratios of expenses to average net assets would have been 0.21% in 1996 and 0.22% in 1995.

(1) Annualized.

Massachusetts State Teachers' and Employees' Retirement Systems Trust

Financial Highlights (continued)

(For a unit outstanding throughout the period)

	Cash Fund					
	Six months ended December 31	Year ended June 30				
	1996	1996	1995	1994	1993	1992
Net asset value, beginning of period	$ 1.0000	$ 1.0000	$ 1.0000	$ 1.0000	$ 1.0000	$ 1.0000
Net investment income	0.0267	0.0667	0.0833	0.0175	0.0341	0.0473
Dividends from net investment income	(0.0267)	(0.0667)	(0.0833)	(0.0175)	(0.0341)	(0.0473)
Net asset value, end of period	$1.0000	$ 1.0000	$ 1.0000	$ 1.0000	$ 1.0000	$ 1.0000
Total return†	2.70%	6.86%	8.62%			
Ratios/Supplemental Data						
Net assets, end of period (in thousands)	$75.757	$76.578	$ 12.234	$ 510.340	$ 370.180	$ 419.901
Ratio of net investment income to average net assets	5.40% (1)	5.85%	5.29%	1.75%	3.35%	5.11%

† Total return based on per share net asset value reflects the effects of changes in net asset value on the performance of the Trust during the period, and assumes dividends, if any, were reinvested. Results represent past performance and do not guarantee future results. Investment returns and principal may fluctuate and units, when redeemed, may be worth more or less than original cost. Total return had not been calculated in years prior to fiscal year 1995. Total return for periods of less than one year have not been annualized.

‡ The fiscal 1996 and 1995 balances represent the per unit information associated with the cash of the Teachers' and Employees' Plans only. For fiscal years 1994 and prior, the balances presented include per unit information related to liquid amounts at the investment managers, as well as that associated with the Teachers' and Employees' Plans.

(1) Annualized.

Notes to Financial Statements

December 31, 1996

1. Significant Accounting Policies

General

The Massachusetts State Teachers' and Employees' Retirement Systems Trust (the Trust) is a combined investment fund for the Commonwealth of Massachusetts State Employees' Annuity Fund (Employees) and the Commonwealth of Massachusetts Teachers' Annuity Fund (Teachers). The Trust consists of two investment funds, known as the Capital Fund and the Cash Fund. The Trust was established by the Treasurer of the Commonwealth, as Trustee, under a Declaration of Trust dated January 1, 1989, pursuant to authority granted under Massachusetts General Laws. The Trust is a component unit of the Commonwealth of Massachusetts.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by Capital Fund and Cash Fund classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended June 30, 1996, from which the summarized information was derived.

Cost of Investments

The Trust's initial portfolio was acquired in an exchange of Trust units for Trust units held by unitholders in Treasurer's Management Trust, Treasurer's Fixed Income Securities Trust and Treasurer's Cash Management Trust. The cost at which investments are carried on the books and in the financial statements is based on the cost as reflected on the records of the three predecessor investment funds or, if acquired subsequently, on purchase cost.

Valuation of Securities

Securities (including options) listed on security exchanges or reported through the NASDAQ national market are valued at closing sales prices. If no sale has been reported, the last published sale or the mean between the last bid and asked prices, whichever is more recent, is used. If such price is unavailable or if, in the opinion of the Trustee, the value thus obtained does not fairly indicate the actual market value, the security is valued by a reputable broker or investment banker selected by the Trustee. Unlisted securities are valued at current bid price. If no bid price exists, valuation is determined either by taking the mean between the most recent published bid and asked prices, or by averaging quotations obtained from dealers, brokers or investment bankers approved by the Trustee. Short-term obligations are valued at cost, and market value is approximated at cost plus accrued interest receivable. Securities for which such valuations are unavailable are appraised at their fair value as determined in good faith by the investment managers responsible for such investments, at the direction of the Trustee.

1. Significant Accounting Policies (continued)

Investment Transactions

Investment transactions are recorded on the trade date.

Federal Income Taxes

The Trust has obtained a determination letter in which the Internal Revenue Service stated that the Trust was in compliance with the applicable requirements of the Internal Revenue Code and not subject to tax. Therefore, no provision for income taxes has been included in the Trust's financial statements.

Income

For the Capital Fund. interest income is determined on the basis of interest accrued and discount earned, adjusted for amortization of premium or discount on long-term debt securities. Dividend income is recorded on the ex-dividend date. For the Cash Fund, interest income consists of interest accrued and discount earned, plus or minus net realized gain or loss, if any, on investments.

Expenses

The investment management fees applicable to the Capital Fund and the Cash Fund and all other expenses are borne by the Capital Fund.

Foreign Currency Translation

The accounting records of the Trust are maintained in U.S. dollars. Investment securities, other assets and liabilities initially valued in foreign currencies are converted into U.S. dollars based upon current exchange rates. Purchases and sales of foreign investment securities and income and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the dates of such transactions. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. Net unrealized foreign currency gains and losses arising from changes in the value of assets and liabilities other than investments in securities at period end are recorded for financial statement purposes as net unrealized gains or losses on translation of assets and liabilities in foreign currencies. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

1. Significant Accounting Policies (continued)

Forward Foreign Currency Exchange Contracts

The Trust may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date to manage its exposure to the risk of fluctuating foreign currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The gain or loss arising from the difference between the original contract and the closing of such contract is included in net realized gains (losses) on foreign currency transactions. Fluctuations in the value of forward foreign currency exchange contracts are recorded for financial statement purposes as unrealized gains or losses by the Trust.

Financial Futures Contracts

The Trust may enter into financial futures contracts for the delayed delivery of securities, currency or contracts based on financial indices at a fixed price on a future date. In entering such contracts, the Trust is required to deposit either in cash or securities an amount equal to a percentage of the contract amount. Subsequent payments are made or received by the Trust each day, depending on the daily fluctuations in the value of the underlying security, and are recorded for financial statement purposes as unrealized gains or losses by the Trust. The Trust's investment in financial futures contracts is designed to hedge against anticipated future changes in interest or exchange rates or securities' prices.

Although some financial futures contracts by their terms call for actual delivery or acceptance of financial instruments, in most cases the contracts are closed out prior to delivery by offsetting purchases or sales of matching financial futures contracts. When the contracts are closed, the Trust recognizes a gain or loss. Risks of entering into futures contracts include the possibility that there may be an illiquid market and/or that a change in the value of the contract may not correlate with changes in the value of the underlying securities.

Security Loans

Pursuant to the provisions of the Trust's Operating Trust Agreement, the Trust has the authority to lend securities to broker-dealers for collateral that will be returned for the same securities in the future. In March 1996, the Trust commenced lending its securities in connection with a Securities Lending Agreement (Agreement), dated March 11, 1996, with Goldman, Sachs & Co. (Goldman). The Trust may lend any of its domestic and international equity securities, provided it maintains at least one round lot in custody with its custodian.

1. Significant Accounting Policies (continued)

Security Loans (continued)

The collateral securities cannot be pledged or sold by the Trust unless the borrower defaults. Securities loans were collateralized at all times by U.S. Treasury securities with a market value equal to at least 100% of the market value of the securities loaned. Securities on loan are classified by category of custodial risk according to the category for the collateral received on the securities lent. The market value of securities loaned at December 31, 1996 was $243,811,176.

As a condition to the Agreement, MASTERS is entitled to receive minimum annual stock loan income of $1.5 million. The Agreement with Goldman and the Operations Support Agreement with State Street Bank & Trust require Goldman and State Street Bank & Trust to indemnify the Trust in the event that Goldman fails to return the securities (and if the collateral is inadequate to replace the securities lent) or if Goldman or State Street Bank & Trust fail to perform their obligations pursuant to their respective agreements.

At December 31, 1996, the Trust has concluded that it does not have credit risk exposure to the borrower because the amounts the Trust owes the borrower exceeds the amounts the borrower owes the Trust. The Trust has not reflected accrued income in its calculations.

2. Distributions

Cash Fund

The net income of the Cash Fund is determined daily, and all of the net income so determined is declared as a dividend to shareholders of record at the time of the declaration. Dividends are paid monthly in the form of additional shares of the Fund.

Capital Fund

The current practice of the Capital Fund is to declare and pay monthly distributions of all of the net investment income earned by the Fund.

3. Units of Participation

The Declaration of Trust permits the Trustee to issue an unlimited number of full and fractional units of participation (without par value). Units of participation in the Capital Fund may be issued only to the Massachusetts State Employees' Annuity Fund and the Massachusetts State Teachers' Annuity Fund. Units of participation in the Cash Fund may also be issued to the Capital Fund.

4. Investment Management and Custodian Services

The Trust has engaged a number of investment managers to perform investment advisory and management services for the assets of the Capital Fund. The Capital Fund pays a quarterly fee for management and services to each investment manager. The fee is calculated by applying an annual rate, which varies depending on the investment managers' contracts, to the market value of net assets. The market value of the investment managers' assets in the Trust is determined as of the last business day of the preceding quarter. Total investment management fees paid during the six-month period ended December 31, 1996 amounted to $10,556,825, representing 0.12% of the Capital Fund's average net assets.

Effective July 1, 1996, State Street Bank and Trust Company served as custodian of Trust assets. Prior to July 1, 1996, Boston Safe Deposit and Trust Company (Boston Safe) served as the custodian of Trust assets.

The Cash Fund represents available cash invested in a short-term investment fund. This fund is managed by the custodian and is charged sweep fees for the activity. The sweep fees, which are paid at a negotiated rate of twelve basis points, are accounted for as a reduction of the interest income received.

5. Investments

Gross unrealized appreciation and depreciation on the Trust's investment portfolio as of December 31, 1996 was $1,551,553,447 and $161,022,587 respectively, resulting in net unrealized appreciation of $1,390,530,860.

During the six-month period ended December 31, 1996, purchases and sales of investments of the Capital Fund, other than short-term obligations, aggregated $4,340,297,056 and $4,046,079,730, respectively.

The Trust's Operating Trust Agreement authorizes the investment without limitation in bonds, debentures, notes, certificates and other evidence of indebtedness, whether or not in registered form, interests in real estate, venture capital and leveraged buyout investments, common and preferred stocks and all other forms of certificates representing an interest or participation in any enterprise, whether or not incorporated. Included in the Trust's investments are the following types of derivative securities.

Mortgage-Backed Securities

The Trust invests in mortgage-backed securities that provide a cash flow "pass through" of principal and interest payments by mortgagees from an underlying pool of mortgage loans. Mortgage-backed securities do not have a contractual maturity date and the Trust is subject to the risk of prepayment on this portfolio.

5. Investments (continued)

Collateralized Mortgage Obligations

The Trust invests in collateralized mortgage obligations (CMOs) which are debt obligations collateralized by a pool of mortgages or mortgage-backed securities. CMOs separate the cash flows from the pool into "classes", "pieces" or "tranches" with various maturities. CMOs are structured so that the cash flow received from the underlying pool can be allocated, on a prioritized basis, among the classes of bonds comprising the CMO. As with mortgage-backed securities, the Trust is subject to the risk of prepayment on CMO securities.

Inverse Floaters

The Trust invests in inverse floaters, structured from mortgage-backed securities, to hedge against prepayment risk related to falling interest rates. An inverse floater bears an interest rate that moves inversely to market interest rates. That is, when current market interest rates increase, the interest rate paid on the inverse floater declines, and vice versa. While inverse floaters may pay attractive yields, the Trust is subject to risk from rising interest rates.

Principal Only Strips

The Trust invests in principal only strips, another form of mortgage-backed security, which provide cash flows from mortgage principal payments. The holders of such securities are expected to receive cash flows in the amount of principal purchased, subject to credit risk; however, the timing of such cash flows is uncertain due to factors such as prepayment of the underlying mortgages.

6. Financial Instruments with Off-Balance Sheet Risk

The Trust regularly trades financial instruments with off-balance sheet risk in the normal course of its investing activities to assist in managing exposure to market risks such as interest rates. These financial instruments include forward foreign currency exchange contracts and financial futures contracts.

The notional or contractual amounts of these instruments represent the investment the Trust has in particular classes of financial instruments and does not necessarily represent the amount potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered.

6. Financial Instruments with Off-Balance Sheet Risk (continued)

Forward Foreign Currency Exchange Contracts

At December 31, 1996, several investment pools of the Trust held the following forward foreign currency exchange contracts.

Transaction	Settlement Date		Contract to Receive/Deliver	In Exchange for	Net Unrealized Appreciation (Depreciation)
Purchases	2/20/97-4/21/97	AUD	14,274,941	$ 11,268,864	$ 59,643
	2/20/97	CAD	14,884,553	11,199,500	(303,934)
	1/17/97	CHF	3,641,385	2,734,840	(18,181)
	1/21/97-4/21/97	DEM	12,178,249	7,943,430	14,094
	4/21/97	ESP	114,853,127	886,093	(5,006)
	1/8/97-2/24/97	GBP	3,297,487	5,482,059	154,229
	2/24/97	IEP	3,183,667	5,243,181	142,887
	2/7/97	ITL	1,686,439,882	1,107,562	(650)
	3/10/97	JPY	207,750,000	1,849,939	(42,509)
	1/3/97	HKD	1,868,903	241,647	(31)
	2/3/97	NLG	4,518,010	2,654,023	(36,213)
	2/3/97	SEK	183,069,908	27,068,175	(217,682)
	1/7/97	SGD	837,511	598,949	(223)
				$ 78,278,262	$ (253,576)
Sales	2/20/97	AUD	33,626,973	$ 26,344,313	$ (347,298)
	2/20/97	CAD	35,319,424	26,359,086	505,093
	1/17/97-2/19/97	CHF	5,402,865	4,300,000	264,736
	1/2/97-4/21/97	DEM	39,211,340	25,844,830	231,153
	1/2/97-4/21/97	ESP	1,053,535,160	8,120,861	38,736
	1/2/97-2/25/97	FRF	8,164,055	1,612,961	37,619
	2/24/97	GBP	5,498,894	8,937,690	(460,410)
	2/24/97	IEP	7,616,073	12,301,238	(583,491)
	1/6/97-10/31/97	JPY	831,718,772	7,548,801	263,362
	2/3/97	NLG	4,271,837	2,608,915	133,742
	2/3/97-2/7/97	SEK	181,620,755	26,999,516	357,729
	2/3/97	DKK	110,459,908	19,350,542	591,349
				$ 170,328,753	$ 1,032,320

6. Financial Instruments with Off-Balance Sheet Risk (continued)

AUD	=	Australian Dollars	HKD	=	Hong Kong Dollars
CAD	=	Canadian Dollars	IEP	=	Irish Punts
CHF	=	Swiss Francs	ITL	=	Italian Lire
DEM	=	Deutsche Marks	JPY	=	Japanese Yen
DKK	=	Danish Kroner	NLG	=	Netherland Guilders
ESP	=	Spanish Pesetas	SEK	=	Swedish Kroner
FRF	=	French Francs	SGD	=	Singapore Dollars
GBP	=	British Pounds			

Financial Futures Contracts

At December 31, 1996, open positions in financial futures contracts for the Trust were as follows:

Expiration	Open Contracts	Unrealized Appreciation
March 1997	12 S&P 500 Index	$ 39,600
March 1997	18 S&P Barra Value Index	68,850
		$ 108,450

At December 31, 1996, the Trust held U.S. Treasury Bills, due March 6, 1997, with principal value of $450,000 and market value of $445,964, in a segregated account to cover margin requirements on open financial futures contracts.

7. Cash Equivalents and Investment Risk Levels

Cash represents amounts in bank depository accounts. Amount payable to bank represents a net overdraft in the bank depository accounts as of June 30, 1996. These accounts typically reflect positive balances, of which an aggregate amount of $100,000 is insured. The remaining depository balance is uninsured and not collateralized. The first $100,000 of these balances is insured by the Securities Investor Protection Corporation.

7. Cash Equivalents and Investment Risk Levels (continued)

The amounts shown below represent the carrying value of the Trust's investments, which equals market value, at December 31, 1996. The amounts are categorized as follows to give an indication of the level of risk assumed by the Trust:

- Category 1 includes investments that are insured or registered or for which the securities are held by the Trust or its agent in the Trust's name.
- Category 2 includes uninsured and unregistered cash equivalents and investments for which the securities are held by the financial institutions, brokers or dealers trust department or agent in the Trust's name.
- Category 3 includes uninsured and unregistered cash equivalents and investments for which the securities are held by the financial institution, broker or dealer; or investments held by the financial institutions, brokers or dealers trust department or agent, but not in the Trust's name.

	Category			
	1	2	3	Total Market Value
Foreign securities	$1,006,384,667			$1,006,384,667
Domestic equities	4,527,002,449			4,527,002,449
Corporate bonds and notes	945,479,801			945,479,801
U.S. Government and government agency securities	2,151,544,292			2,151,544,292
Municipal bonds	66,035,309			66,035,309
Collateralized mortgage obligations	194,530,420			194,530,420
Subtotal	$8,890,976,938	$ –	$ –	8,890,976,938
Limited partnership investments				50,532,850
Pooled money market funds				380,905,493
Pooled investment funds				179,950,594
Total				$9,502,365,875

8. Plan of Conversion

In July 1996, the Governor signed into law Chapter 315 of the Acts of 1996. This law became effective November 7, 1996 and merged the two state pension funds – the Massachusetts State Teachers and Employees Retirement Systems Trust (MASTERS) and the Pension Reserve Investment Trust (PRIT). The transfer of assets from MASTERS to PRIT occurred on January 1, 1997. Under the legislation, both funds are being managed by the PRIM Board.

Upon completion of the merger, each unit holder of MASTERS became the owner of full and fractional PRIT units equal in aggregate net asset value to the Trust shares as of December 31, 1996.

PENSION RESERVES INVESTMENT TRUST FUND

FINANCIAL STATEMENTS
JUNE 30, 1997

PENSION RESERVES INVESTMENT TRUST FUND

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE OF INVESTMENTS

for the years ended June 30, 1997 and 1996

Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

REPORT OF INDEPENDENT ACCOUNTANTS

To the Pension Reserves Investment Management Board and
Participating and Purchasing Systems of the
Pension Reserves Investment Trust Fund:

We have audited the accompanying statement of assets and liabilities of the Pension Reserves Investment Trust Fund, including the schedule of investments, as of June 30, 1997, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying 1996 comparative data were derived from the 1996 financial statements of the Pension Reserves Investment Trust Fund which were previously audited and reported upon.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 1997, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pension Reserves Investment Trust Fund as of June 30, 1997, and the results of its operations and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
October 16, 1997

PENSION RESERVES INVESTMENT TRUST FUND

STATEMENTS OF ASSETS AND LIABILITIES

June 30, 1997 and 1996

	1997					
	Capital Fund					
ASSETS	State Employees' and Teachers' Separate Account	General Allocation Account	Total	Cash Fund	Total	1996 Total
Investments at fair value (Note 2):						
Domestic equities		$ 10,225,252,746	$ 10,225,252,746		$ 10,225,252,746	$ 4,019,303,518
Domestic fixed-income investments		1,713,443,458	1,713,443,458		1,713,443,458	533,217,982
U.S. government agency and treasury obligations		2,563,505,145	2,563,505,145		2,563,505,145	872,030,478
Money market investments	$ 45,675,372	734,921,266	780,596,638	$ 21,690,254	802,286,892	334,370,325
Real estate, net of reserve (Note 2)		753,996,401	753,996,401		753,996,401	492,745,015
Alternative investments	857,937	785,704,173	786,562,110		786,562,110	680,376,833
International equities		3,125,027,496	3,125,027,496		3,125,027,496	553,556,909
International fixed-income		360,984,631	360,984,631		360,984,631	350,874,483
Total investments	46,533,309	20,262,835,316	20,309,368,625	21,690,254	20,331,058,879	7,836,475,543
Cash		65,937,664	65,937,664		65,937,664	5,905,294
Dividends and interest receivable	174,134	79,401,886	79,576,020	23,883	79,599,903	34,849,681
Receivable for investments sold	481	96,897,264	96,897,745		96,897,745	74,823,406
Unrealized appreciation on forward foreign currency contracts		30,869,403	30,869,403		30,869,403	11,934,399
Margin variation receivable					-	887,063
Other assets					-	169,611
Total assets	46,707,924	20,535,941,533	20,582,649,457	21,714,137	20,604,363,594	7,965,044,997
LIABILITIES						
Payable for investments purchased		435,139,541	435,139,541		435,139,541	169,661,399
Management fees payable to PRIM (Note 3)		17,674,107	17,674,107		17,674,107	11,917,564
Unrealized depreciation on forward foreign currency contracts		39,270,092	39,270,092		39,270,092	6,445,005
Written options, at value (premiums received $360,973)					-	301,500
Margin variation payable		761,525	761,525		761,525	-
Other liabilities	174,466	360,332	534,798	110,553	645,351	110,552
Total liabilities	174,466	493,205,597	493,380,063	110,553	493,490,616	188,436,020
Commitments and contingencies (Note 5)						
Total net assets	$ 46,533,458	$ 20,042,735,936	$ 20,089,269,394	$ 21,603,584	$ 20,110,872,978	$ 7,776,608,977
NET ASSETS						
Net assets consists of:						
Fund units	$ 44,398,283	$ 11,615,948,823	$ 11,660,347,106	$ 20,806,322	$ 11,681,153,428	$ 5,994,385,247
Undistributed net investment income	1,310,420	664,732,431	666,042,851	797,262	666,840,113	260,785,531
Undistributed net realized capital gains (losses)	1,005,394	5,207,975,026	5,208,980,420		5,208,980,420	565,678,520
Net unrealized appreciation (depreciation) on investments	(180,639)	2,554,079,656	2,553,899,017		2,553,899,017	955,759,679
Total net assets	$ 46,533,458	$ 20,042,735,936	$ 20,089,269,394	$ 21,603,584	$ 20,110,872,978	$ 7,776,608,977
Investments at cost	$ 46,713,948	$ 17,699,806,642	$ 17,746,520,590	$ 21,690,254	$ 17,768,210,844	$ 6,885,902,325

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

STATEMENTS OF OPERATIONS

for the years ended June 30, 1997 and 1996

	1997					1996
	Capital Fund					
	State Employees' and Teachers' Separate Account	General Allocation Account	Total	Cash Fund	Total	Total
Investment income:						
Interest	$ 2,263,992	$ 249,140,896	$ 251,404,888	$ 347,768	$ 251,752,656	$ 130,990,460
Dividends	-	122,772,920	122,772,920	-	122,772,920	40,064,811
Real estate income	4,289,036	50,606,521	54,895,557	-	54,895,557	32,099,885
Alternative investment income	8,884	3,380,415	3,389,299	-	3,389,299	6,910,874
Security lending income (Note 6)	-	24,482,546	24,482,546	-	24,482,546	2,026,812
Total investment income	6,561,912	450,383,298	456,945,210	347,768	457,292,978	212,092,842
Less:						
Management fees (Note 3)	172,927	29,635,850	29,808,777	-	29,808,777	16,515,544
Interest expense	-	-	-	-	-	128,334
Security lending expenses (Note 6):						
Borrower rebates	-	21,281,608	21,281,608	-	21,281,608	-
Management fees	-	364,882	364,882	-	364,882	-
Net investment income	6,388,985	399,100,958	405,489,943	347,768	405,837,711	195,448,964
Net realized gain (loss) on investments (Note 2)	17,174,571	2,224,863,374	2,242,037,945	-	2,242,037,945	458,064,198
Net unrealized appreciation (depreciation) on investments	14,173,430	193,194,673	207,368,103	-	207,368,103	536,481,002
Net gain on investments	31,348,001	2,418,058,047	2,449,406,048	-	2,449,406,048	994,545,200
Net increase in net assets resulting from operations	$ 37,736,986	$ 2,817,159,005	$ 2,854,895,991	$ 347,768	$ 2,855,243,759	$ 1,189,994,164

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

STATEMENTS OF CHANGES IN NET ASSETS

for the years ended June 30, 1997 and 1996

	1997					
	Capital Fund					
	State Employees' and Teachers' Separate Account	General Allocation Account	Total	Cash Fund	Total	1996 Total
Operating activities:						
Net investment income	$ 6,388,985	$ 399,100,958	$ 405,489,943	$ 347,768	$ 405,837,711	$ 195,448,964
Realized gain (loss) on investments	17,174,571	2,224,863,374	2,242,037,945	-	2,242,037,945	458,064,198
Unrealized appreciation (depreciation) on investments	14,173,430	193,194,673	207,368,103	-	207,368,103	536,481,002
Increase in net assets resulting from operations	37,736,986	2,817,159,005	2,854,895,991	347,768	2,855,243,759	1,189,994,164
Fund unit transactions:						
System contributions	238,673,820	161,710,562	400,384,382	65,854,689	466,239,071	468,989,634
Merger with MASTERS (Note 1)	76,328,816	9,362,481,222	9,438,810,038	-	9,438,810,038	-
Interaccount transfer	(319,708,133)	319,708,133	-	-		-
Full system redemptions	-	-	-	(100,000,000)	(100,000,000)	-
Partial system redemptions	(271,188,472)	-	(271,188,472)	(54,840,395)	(326,028,867)	(73,516,459)
Interfund transfers	(33,667,500)	(73,684,001)	(107,351,501)	107,351,501	-	-
Net assets (used) provided by fund unit transactions	(309,561,469)	9,770,215,916	9,460,654,447	18,365,795	9,479,020,242	395,473,175
Increase (decrease) in net assets	(271,824,483)	12,587,374,921	12,315,550,438	18,713,563	12,334,264,001	1,585,467,339
Net assets, beginning of year	318,357,941	7,455,361,015	7,773,718,956	2,890,021	$ 7,776,608,977	6,191,141,638
Net assets, end of year	$ 46,533,458	$ 20,042,735,936	$ 20,089,269,394	$ 21,603,584	$ 20,110,872,978	$ 7,776,608,977

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

1. **Description of the Pension Reserves Investment Trust Fund:**

General

The Pension Reserves Investment Trust Fund ("PRIT") was created in 1983 by The Commonwealth of Massachusetts through legislation (Chapter 661 of the Acts of 1983, as amended by Chapter 697 of the Acts of 1987) and is the investment portfolio for the assets of member state and local retirement systems. The Pension Reserves Investment Management Board (the "PRIM Board") was created by the same legislation to manage PRIT. As of June 30, 1997, the PRIM Board consists of the following nine members: (1) the Governor, ex officio, or his designee; (2) the State Treasurer, ex officio, or his designee who serves as Chairman of the Board; (3) a private citizen experienced in the field of financial management appointed by the State Treasurer; (4) an employee or retiree who is a member of the State Teachers' Retirement System elected by the members of such system for a term of three years; (5) an employee or retiree who is a member of the State Retirement System elected by the members of such system for a term of three years; (6) one of the elected members of the State Retirement Board; (7) one of the elected members of the Teachers Retirement Board chosen by the members of the Teachers Retirement Board; (8) a person who is not an employee or official of the Commonwealth appointed by the Governor; and (9) a representative of a public safety union appointed by the Governor. Appointed members serve for a term of four years.

On August 9, 1996, the Governor signed into law Chapter 315 of the Acts of 1996. This law became effective November 7, 1996 and merged the two state pension funds -- Massachusetts State Teachers' and Employees' Retirement Systems Trust ("MASTERS Trust") and PRIT. The transfer of assets of $9,438,810,038 from MASTERS Trust to PRIT was effective January 1, 1997. The MASTERS Trust assets included undistributed net income of $216,870, undistributed net realized capital gain of $2,401,263,956, and unrealized appreciation of $1,390,771,235 at December 31, 1996. Upon completion of the merger each unit holder of the MASTERS Trust became the owner of full and fractional PRIT units equal in aggregate net asset value to the MASTERS Trust as of December 31, 1996. Under the legislation, both funds are managed by the PRIM Board.

Systems joining PRIT have the option of being Participating or Purchasing Systems. The Participating Systems include the State Employees' and the State Teachers' Retirement Systems. The remaining Participating and Purchasing Systems are the retirement systems of Massachusetts authorities, counties, cities and towns. Participating Systems, other than the State Employees' and State Teachers' Retirement Systems, must transfer all of their retirement system assets to PRIT and commit to remain invested for five years. Purchasing Systems may allocate a certain amount of their assets to the Fund, thus retaining the ability to contribute and withdraw funds at their discretion. Purchasing Systems and Participating Systems share in the investment earnings of PRIT based on their proportionate share of net assets (see Note 2). As of June 30, 1997, there were 15 Participating Systems and 14 Purchasing Systems.

Continued

Operating Trust Amendments

On June 28, 1994, the PRIM Board voted to amend its operating trust. The amendments allow the PRIM Board to offer segments of PRIT to eligible retirement systems. The amendments changed PRIT's accounting system to a "plan accounting" structure. This new structure was implemented by the Fund effective January 1, 1995. Under the new plan accounting structure, invested systems acquire additional units in PRIT when they make actual capital contributions to PRIT. The total PRIT income and realized and unrealized gains and losses are added to, or subtracted from, the total value of PRIT. The new net asset value is then divided by the number of units outstanding to determine a per unit value. Generally, if a system makes no contributions to or redemptions from the Fund, the number of units the system owns will remain constant while the share price will fluctuate with PRIT's performance.

On September 17, 1996, the PRIM Board voted to amend its operating trust. The amendments were to conform to the provision of Chapter 315 of the Acts of 1996 that reflects the merger of the MASTERS Trust with PRIT.

Investment Funds

PRIT consists of two investment funds, the "Capital Fund" and the "Cash Fund". Each of these funds is separately held, managed and accounted for. The Capital Fund serves as the long-term asset portfolio and consists of the following eight accounts at June 30, 1997: General Allocation Account (the investments in which may consist in whole or in part of units of the other accounts, except the State Employees' and Teachers' Separate Account), Domestic Equity Account, Fixed Income Account, International Equity Account, Emerging Markets Account, Real Estate Account, Alternative Investment Account, and the State Employees' and Teachers' Separate Account. At June 30, 1997, all Participating and Purchasing Systems were invested in the General Allocation Account.

On May 15, 1996, Chapter 84 of the Acts of 1996 was signed into law. This statute explicitly confirms retirement boards' authority to purchase units in the separate investment accounts of PRIT, as an alternative to investing in the General Allocation Account. PRIM implemented Phase I of Segmentation in 1997, offering investments in certain of its public market asset classes. As of June 30, 1997, there was no activity in the Segmentation program. Phase II, which will encompass PRIT's real estate and alternative investments portfolios, is scheduled to become available in Fiscal Year 1998.

The Cash Fund consists of short-term investments which are used to meet the liquidity requirements of Participating and Purchasing Systems.

Continued

State Employees' and Teachers' Separate Account

For presentation purposes, the State Employees' and Teachers' Separate Account has been reported separately. The assets held in this account consist principally of investment assets transferred by MASTERS in fiscal 1996 and 1995 in partial satisfaction of the obligation under the "excess earnings" pursuant to M.G.L. c.32, sec. 22 (6). In fiscal 1997 and 1996, the State Employees' and the State Teachers' Retirement Systems transferred approximately $10,000 and $397,127,000, respectively, of assets to PRIT in connection with the "excess earnings" payment.

As of January 2, 1997, assets of $319,708,133 was transferred from the State Employees' and Teachers' Separate Account to the General Allocation Account. The transfer of assets included undistributed net income of $15,861,397, undistributed net realized gain of $44,685,947, and unrealized appreciation of $32,739,566, as of January 1, 1997. As of June 30, 1997 the assets in the Separate Account consist principally of alternative investment assets and operating cash.

Excess Earnings

Prior to the merger of the MASTERS Trust and PRIT any balance remaining in the investment income accounts of the State Employees' and State Teachers' Retirement Systems was required to be transferred to PRIT. Each system, once it had completed its annual report, transferred these funds from the MASTERS Trust, known as "excess earnings," to PRIT on an annual basis. During fiscal 1997 and prior to the merger, the State Employees' Retirement System made a final excess earning payments to PRIT through its fiscal year ended December 31, 1995. Now that the MASTERS Trust has been merged with PRIT there will be no further excess earnings transfers.

2. Summary of Significant Accounting Policies:

Valuation of Investments

Security transactions are recorded on the trade date of the securities purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a member system, the market value of the securities on the transfer date.

Investments are presented at fair value. Investments in bonds and U.S. government agency and treasury obligations are valued by an independent pricing service. In determining the price, the service reflects such factors as security prices, yields, maturities and ratings, supplemented by dealer quotations. Money market and other short-term investments, both domestic and international, are recorded using the amortized cost method, which approximates market value. Domestic and international investments in equity securities traded on national securities exchanges are valued at the last sale price or, if no sale price is available, at the closing bid price. Securities traded on any other exchange are valued in the same manner or, if not so traded, on the basis of closing over-the-counter bid prices. If no bid price exists, valuation is

Continued

determined either by taking the mean between the most recent published bid and asked prices, or by averaging quotations obtained by the custodian bank from dealers, brokers or investment bankers under the general supervision of the PRIM Board. Securities for which such valuations are unavailable are reported at their fair value as determined in good faith by the investment managers responsible for such investments under the general supervision of the PRIM Board.

Investments in real estate consists principally of Core Property investments which are wholly-owned properties and Commingled Fund investments. Investments in real estate are valued as determined in good faith under consistently applied procedures under the general supervision of the PRIM Board, with input from the real estate managers and other advisers. The investments in real estate at value amounted to $753,996,401 and $492,745,015 at June 30, 1997 and 1996, respectively. Investments in real estate at value in the General Allocation Account are net of a valuation reserve amounting to approximately $11,946,000 and $7,000,000 at June 30, 1997 and 1996, respectively.

Alternative investments are typically made through limited partnerships that, in turn, invest in venture capital, leveraged buyouts, private placements and other investments where the structure, risk profile and return potential differ from traditional equity and fixed income investments. These investments are at estimated fair values as determined in good faith under consistently applied procedures under the general supervision of the PRIM Board with input from the alternative investment managers and other advisors. The investments in alternative investments at value amounted to $786,562,110 and $680,376,833 at June 30, 1997 and 1996, respectively.

Concentrations of credit risk exist if a number of companies in which PRIT has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate its exposure to concentrations of credit risk, PRIT invests in a variety of industries located in diverse geographic areas.

Income

Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. For the year ended June 30, 1997, foreign taxes withheld of $3,952,793 and $399,624 have been netted against dividend income and interest income, respectively, in the General Allocation Account in the Statement of Operations. Investment income on real estate and alternative investments is recorded on the cash distribution basis.

Realized Gains and Losses

Gains and losses from sales of investments are calculated on the average cost method. Realized gains for the year ended June 30, 1997 include gains of $769,150,185 representing the excess of

Continued

market value over cost, at the date of transfer, of assets transferred from investment managers terminated by the PRIM Board to the remaining investment managers in fiscal 1997.

Forward Foreign Currency Contracts

A forward foreign currency contract is an agreement between two parties to buy or sell a currency at a set price on a future date. PRIT enters into forward currency contracts to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contracts is the aggregate face value in U.S. dollars at the time the contract was opened.

Futures

PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

A futures contract is an agreement between two parties to buy or sell units of a particular index or a certain amount of a U.S. Government security at a set price on a future date.

Upon entering into such a contract, PRIT is required to pledge to the broker an amount of cash or securities equal to the minimum "initial margin" requirements of the futures. Pursuant to the contract, PRIT agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by PRIT as unrealized gains or losses. When the contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The potential risk to PRIT is that the change in value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to an illiquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

Options

An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (call option), or sell to (put option), the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by PRIT if the option is assigned.

Continued

If PRIT writes an option and the option expires unassigned, PRIT will realize income, in the form of a realized gain, to the extent of the amount received for the option (the "premium"). If PRIT elects to close out the option it would recognize a gain or loss based on the difference between the cost of closing the option and the initial premium received. If PRIT purchased an option and allows the option to expire, it would realize a loss to the extent of the premium paid. If PRIT elects to close out the option, it would recognize a gain or loss equal to the difference between the cost of acquiring the option, and the amount realized upon the sale of the option.

The gain or loss recognized by PRIT upon the assignment of a written call or the exercise of a purchased put option is adjusted for the amount of option premium. If a written put is assigned, PRIT's cost basis of the acquired security or currency would be the cost of the security adjusted for the amount of the option premium.

The liability representing PRIT's obligation under an exchange traded written option or investment in a purchased option is valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked price or at the most recent asked price (bid for purchased options) if no bid and asked prices are available. Over-the-counter written or purchased options are valued using dealer supplied quotations.

When PRIT writes a covered call option, PRIT foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security or currency above the exercise price. When PRIT writes a put option it accepts the risk of a decline in the market value of the underlying security or currency below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. PRIT's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit PRIT's ability to close out an option contract prior to the expiration date and, that a change in the value of the option contract may not correlate exactly with changes in the value of the securities or currencies hedged.

Foreign Currency Translation

The accounting records of PRIT are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing rates of exchange at period end. Purchases and sales of securities, income receipts, and expense payments are translated into U.S. dollars at the prevailing exchange rate on the respective dates of the transactions.

Net realized gains and losses on foreign currency transactions represent principally net gains and losses from sales and maturities of forward currency contracts, disposition of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions.

Continued

Unrealized net currency gains and losses from valuing foreign currency-denominated assets and liabilities and foreign equity securities at period-end exchange rates are reflected as a component of net unrealized appreciation (depreciation) on investments. For financial reporting purposes, it is not practicable to isolate that portion of the results of operations arising as a result of changes in foreign exchange rates from the fluctuations arising from changes in the market price of securities during the period.

Capital Fund

Capital Fund - General Allocation Account

On payment by a Participating or Purchasing System in cash or in kind into the PRIT Fund of an amount equal to the total value of units to be issued, the Trustees issue such system units of participation. The value of the Account units is determined by dividing the value of the net assets of the Capital Fund - General Allocation Account by the number of units outstanding for the Account at the month-end valuation date.

The General Allocation Account's net asset value per unit was $1,603.89 at June 30, 1997 and $1,322.03 at June 30, 1996.

The State Teachers' Retirement System and the State Employees' Retirement System account for the ownership of 97% of the General Allocation Account's total units outstanding at June 30, 1997.

Capital Fund - State Employees' and Teachers' Separate Account

On payments of an amount equal to the total value of units to be issued, the Trustees issue such system units of participation in that Account. The value of the Account units is determined by dividing the value of the net assets of the Account by the number of units outstanding for that particular Account at the month-end valuation date.

Effective January 1, 1995, net investment income, realized and unrealized gains (losses) are added to, or subtracted from, the value of the Capital Fund or the individual accounts and are not reinvested in the Capital Fund or the individual accounts. Thus, the unit price fluctuates with performance of the Fund or Account while the number of units change generally only when a system makes a purchase or a redemption.

Cash Fund

The Cash Fund units are priced in a manner identical to the Capital Fund. The price of the Cash Fund units is determined by dividing the value of the net assets of the Cash Fund by the number of units outstanding. Cash Fund earnings are not reinvested in the Cash Fund but rather are added to the value of the Cash Fund. As a result, the Cash Fund unit price will fluctuate with the performance of the Cash Fund.

Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by Capital Fund and Cash Fund classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with PRIT's audited financial statements for the year ended June 30, 1996, from which the summarized information was derived.

3. Management Fees:

In accordance with the PRIM Board's operating trust, all expenses incurred by the PRIM Board in managing PRIT are charged to PRIT in the form of management fees. These expenses consist of investment manager, advisory, custodian and other professional fees, salaries and other operating expenses of the PRIM Board.

Investment Managers

Investment management fees are paid to all of the PRIM Board's discretionary managers pursuant to written contracts. The fees are calculated and paid on a quarterly basis.

In most cases, equity managers are paid a base free plus a "performance fee" component. Performance fees are paid to investment managers that outperform a contractual benchmark during the manager's measurement period. This measurement period is one year from the date of the manager's investment management agreement.

Investment manager performance fees for 1996 and prior years were recognized on the anniversary date of the investment management agreement and thus at the completion of the contractual full twelve month period. Beginning with the June 30, 1997 year end, the PRIM Board accrued performance fees through the anniversary date of the contract plus accrued an additional amount for estimated performance fees based on the managers out-performance of the benchmarks for a period less than a full year, specifically from the anniversary date of the investment management agreement to June 30, 1997.

Continued

Investment manager performance fees for 1997 include $7,444,831 earned through the anniversary date of the investment management agreements. In addition, for the year ended June 30, 1997 there is an estimated accrual of $3,862,469. This additional accrual is related to performance fees from the date of the investment management agreements to June 30, 1997.

Without recognition of this additional accrual of $3,862,469, investment manager performance fees and total expenses for 1997 would have been $7,444,831 and $25,946,308, respectively.

Real estate management fees are structured differently. The commingled funds generally charge fees that are based on net asset value. The core properties and other separate account relationships which the PRIM Board has negotiated are typified by a base fee during the holding period of the investment, with a performance fee component that may be payable when the original investment is sold or the relationship is terminated.

Most investment management fees for alternative investments and real estate are charged by the general partners to the investment partnerships and not to the limited partner investors directly. Therefore, these partnerships incur the expense, pay the fee and report income to the limited partners net of those investment management fees. A small number of these partnerships charge the fees directly to the limited partner investors.

In fiscal 1996 and prior years, the PRIM Board elected to report as a gross up of both its revenue and of its operating expenses, all management fees charged at the partnership level to the partnerships for real estate and alternative investments. The PRIM Board used this practice to report investment performance gross and net of management fees. For the financial statements to be more consistent with industry reporting for pension funds, the PRIM Board and PRIT ceased reporting, in fiscal 1997, the gross up of its revenue and operating expenses for the management fees charged at the partnership level to the partnership. This change has no effect on the net income of PRIT. Revenue and operating expenses for fiscal 1996 have been reclassified to be consistent with the fiscal 1997 presentation. Management fees charged at the partnership level amounted to $13,910,942 and $14,392,155 for the years ended June 30, 1997 and 1996, respectively.

Investment Advisors

Wilshire Associates, Inc., The Townsend Group, and Pathway Capital Management LLC serve as the Board's principal pension investment advisors. These consultants provide the PRIM Board with comprehensive pension investment advisory services, including recommendations on asset allocations, selection of investment managers, and the measurement of external and internal performance of PRIT and the individual investment managers.

As compensation for their services, consultants received fees aggregating approximately $1,084,000 and $929,000 for the years ended June 30, 1997 and 1996, respectively.

Continued

Custodian

State Street Bank and Trust Company (State Street) is the PRIT investment custodian and recordkeeper. State Street records all daily transactions for PRIT, including investment sales and purchases, investment income, expenses incurred by PRIT and all fund unit activity for the PRIT member systems. State Street also provides portfolio performance analysis. The PRIM Board has renewed its contract with State Street for these services, effective July 1, 1996. State Street's compensation, based on a flat fee, amounted to $565,500 and $575,000 for the years ended June 30, 1997 and 1996, respectively.

Other Fees

The remaining management fees, approximately $1,909,000 and $1,458,000 for the years ended June 30, 1997 and 1996, respectively, were reimbursements and accruals of the PRIM Board's operating expenses, including employee compensation, professional fees and occupancy costs.

4. Purchases and Sales of Investments:

During the year ended June 30, 1997, the approximate cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were approximately $25,000,000,000 and $23,167,000,000, respectively. During the year ended June 30, 1996, the cost of investments purchased and the proceeds from investments sold, excluding short-term investments, were approximately $7,031,000,000 and $6,035,000,000, respectively.

Transactions in written options for the year ended June 30, 1997 are summarized as follows:

OPTIONS CONTRACTS

	Number of Contracts	Premiums Received
Balance at June 30, 1996	396	$ 360,973
Options written	59,640	23,143,100
Options closed	(50,036)	(19,639,644)
Options expired	(10,000)	(3,864,429)
Balance at June 30, 1997	-	-

Continued

5. **Commitments and Contingencies:**

As of June 30, 1997, PRIT had outstanding commitments to invest $260,964,000 in real estate and $517,750,000 in alternative investments. The fair value of the commitments approximate their stated value.

6. **Security Lending Program:**

PRIT participates in a third party security lending program. Prior to January 1, 1997 PRIT's security lending program was with State Street as the lending agent. Under this program PRIT received a fee, net of borrower rebates and management fees, for allowing brokerage firms to borrow from PRIT certain securities for a predetermined period of time securing such loans with required levels of collateral. The fiscal year 1997 financial statements present the fees under this program and the related borrower rebates and management fees separately. Previously, these fees were presented on a net basis. The fiscal 1996 financial statements have not been reclassified to conform to the 1997 presentation.

On January 1, 1997, PRIT changed its lending agent to Goldman Sachs & Co. ("Goldman"). Under this program, PRIT receives a fixed fee for allowing brokerage firms to borrow from PRIT certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% of the market value of the security borrowed on domestic securities and 105% on international securities. All collateral is held by State Street as custodian. The collateral securities cannot be pledged or sold by PRIT unless the borrower defaults. At June 30, 1997 and 1996, the market value of the securities on loan was approximately $1,026,000,000 and $737,000,000, respectively. The value of the collateral amounted to approximately $1,057,000,000 and $779,000,000 at June 30, 1997 and 1996, respectively. The securities on loan are included in investments at fair value as of June 30, 1997 and 1996 in the accompanying balance sheet.

As a condition to the agreement with Goldman, PRIT is entitled to receive minimum annual stock loan income of $3.1 million. The agreement with Goldman and the Operations Support Agreement with State Street require Goldman and State Street to indemnify PRIT in the event that Goldman fails to return the securities (and if the collateral is inadequate to replace the securities lent) or if Goldman or State Street fail to perform their obligations pursuant to their respective agreements.

At June 30, 1997, PRIT has concluded that it does not have credit risk exposure to the borrower because the amounts the PRIT owes the borrower exceeds the amounts the borrower owes the PRIT. PRIT has not reflected accrued income in its calculations.

Continued

7. Book-to-Market Appropriations:

Pursuant to M.G.L. c.32, sec. 22(3)(c), The Commonwealth of Massachusetts reimburses eligible retirement systems for the unrealized losses in their respective investment portfolios at the date they transferred their assets to PRIT. In fiscal years 1997 and 1996, the Commonwealth contributed $107,449 and $272,304, respectively, representing the book-to-market appropriation. This appropriation was distributed to the five eligible retirement systems in fiscal year 1997 and the six eligible retirement systems in fiscal year 1996 that joined PRIT on or before July 1, 1986.

8. Fair Valued Securities - Real Estate and Alternative Investments:

The financial statements include real estate and alternative investments valued at $1,540,558,511 at June 30, 1997, representing approximately 8% of net assets ($1,173,121,848 at June 30, 1996, representing approximately 15% of net assets), whose estimated fair value has been determined under the general supervision of the PRIM Board, with input from real estate and alternative investment managers and other advisers, in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

9. Cash Equivalents and Investment Risk Levels:

Cash represents amounts in bank depository accounts. Of the total cash balance, $100,000 is insured; the remaining balance is uninsured and not collateralized.

PRIT's investments are categorized as Risk Category 1, the lowest risk, which is defined by GASB Statement No. 3 as insured or registered or held by PRIT or its agent in PRIT's name. For the years ended June 30, 1997 and 1996, State Street Bank and Trust was the custodian for a majority of the investments of PRIT. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in PRIT's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in PRIT's name.

Continued

Investment Type	1997 Category 1	Category 2	Category 3	Total
Domestic equities	$ 10,225,252,746			$ 10,225,252,746
Domestic fixed-income	1,713,443,458			1,713,443,458
International	3,481,262,177		$ 4,749,950	3,486,012,127
U.S. Government agency and treasury obligations	2,563,505,145			2,563,505,145
Subtotal	$ 17,983,463,526	-	$ 4,749,950	17,988,213,476
Money market				802,286,892
Real estate				753,996,401
Alternative investments				786.562,110
Total				$ 20.331.058.879

Investment Type	1996 Category 1	Category 2	Category 3	Total
Domestic equities	$ 4,019,303,518			$ 4,019,303,518
Domestic fixed-income	533,217,982			533,217,982
International	904,431,392			904,431,392
U.S. Government agency and treasury obligations	872,030,478			872,030,478
Subtotal	$ 6.328.983,370	-	-	6,328,983,370
Money market				334,370,325
Real estate				492,745,015
Alternative investments				680,376,833
Total				$ 7,836,475,543

10. State Appropriation:

Systems joining the PRIT Fund have the option to be Participating or Purchasing Systems. Participating Systems must maintain all of their retirement systems assets in PRIT. Those systems qualifying as Participating Systems share in an appropriation made to PRIT by The Commonwealth of Massachusetts pursuant to G.L., Chapter 32, Section 22B based on the Participating Systems' net assets in PRIT at the beginning of the fiscal year. An appropriation of $4,669,038 for fiscal 1996 was made in a supplemental budget signed into law on July 3, 1996 (Chapter 154 of the Acts of 1996). PRIT received the appropriation on September 3, 1996. No appropriation was made in fiscal 1997.

Continued

11. Financial Instruments with Off-Balance Sheet Risk:

PRIT regularly trades financial instruments with off-balance sheet risk in the normal course of its investing activities to assist in managing exposure to market risks such as interest rates. These financial instruments include forward foreign currency exchange contracts and financial futures contracts.

The notional or contractual amounts of these instruments represent the investment PRIT has in particular classes of financial instruments and does not necessarily represent the amount potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. See "Schedule of Investments" for forward foreign currency contracts and futures outstanding.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS

June 30, 1997

Shares/ Par Value	Description	Cost	Market Value
	DOMESTIC EQUITIES		
19,649,077	Basic industries	$ 539,133,764	$ 625,581,151
18,588,672	Capital goods	482,163,465	662,308,841
45,098,093	Consumer basics	1,450,704,578	1,890,515,691
8,388,302	Consumer durable goods	210,365,135	248,540,946
22,420,996	Consumer nondurables	525,941,678	656,804,099
11,167,234	Consumer services	199,330,284	232,233,428
16,385,547	Energy	573,174,855	715,048,382
34,613,710	Finance	1,420,015,963	1,851,635,638
23,256,065	General business	502,577,636	618,656,098
2,557,084	Shelter	63,773,059	74,911,716
42,605,540	Technology	1,228,629,851	1,525,260,164
3,611,305	Transportation	100,729,958	121,899,969
17,336,583	Utilities	562,899,656	632,121,952
29,865,943	Miscellaneous	305,219,254	369,734,671
	TOTAL DOMESTIC EQUITIES	8,164,659,136	10,225,252,746
	DOMESTIC FIXED-INCOME INVESTMENTS		
	Corporate Bonds		
$217,302,395	Financing and Banking with rates ranging from 0% to 12.5% and maturities ranging from 1997 to 2037	213,803,237	216,294,956
229,009,977	Industrials with variable and fixed rates ranging from 0% to 14.0% and maturities ranging from 1998 to 2096	217,210,677	224,373,768
152,978,000	Utilities with fixed and variable rates ranging from 0% to 20.25% and maturities ranging from 1996 to 2026	144,682,575	149,173,984
28,274,615	Transportation with rates ranging from 0% to 13% and maturities ranging from 2000 and 2029	28,011,330	30,993,227

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1997

Shares/Par Value	Description	Cost	Market Value
$791,948,043	Miscellaneous/other with rates ranging from 0% to 13.25% and maturities ranging from 1999 to 2049	$ 733,837,342	$ 756,989,916
	Total Corporate Bonds	1,337,545,161	1,377,825,851
	Other Fixed-Income Investments		
41,002,017	Asset-backed securities with rates ranging from 5.61% to 8.875% and maturities ranging from 1999 to 2027	41,395,990	41,179,706
80,276,000	Convertible Bonds with rates ranging from 0% to 8.25% and maturities ranging from 1996 to 2015	68,119,496	73,840,634
182,866,431	Collateralized Mortgage Obligations with rates ranging from 1% to 15.25% and maturities ranging from 1999 to 2032	178,698,403	179,268,277
41,274,295	Other Marketable Mortgage obligations with rates ranging from 1% to 9.35% and maturities ranging from 1999 to 2021	40,325,717	41,328,990
	Total Other Domestic Fixed-Income Investments	328,539,606	335,617,607
	TOTAL DOMESTIC FIXED-INCOME INVESTMENTS	1,666,084,767	1,713,443,458
	U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS		
23,500,000	U.S. Government sponsored and guaranteed with rates ranging from 0% to 7.875% and maturities ranging from 1998 to 2045	23,336,782	23,626,478

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1997

Shares/Par Value	Description	Cost	Market Value
$1,664,968,943	Federal Agency securities with rates ranging from 0% to 10% and maturities ranging from 1996 to 2027	$1,645,353,893	$1,657,567,380
788,552,979	United States Treasury Bonds/Notes with rates ranging from 0% to 12.375% and maturities ranging from 1997 to 2027	812,233,029	813,067,092
69,383,000	Yankee Bonds with rates ranging form 6.0% to 10.875% and maturities from 1997 to 2026	68,156,845	69,244,195
	TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS	2,549,080,549	2,563,505,145
	MONEY MARKET INVESTMENTS		
	Various Money Market Investments	802,252,662	802,286,892
	TOTAL MONEY MARKET INVESTMENTS	802,252,662	802,286,892
	REAL ESTATE		
	Commingled funds	229,430,741	202,359,521
	Separate core	527,198,982	532,510,776
	Separate accounts	85,613,943	19,126,104
	TOTAL REAL ESTATE	842,243,666	753,996,401
	ALTERNATIVE INVESTMENTS		
	Venture Capital	228,329,985	281,891,547
	Special Equity	383,133,030	503,812,626
	State Employees' and Teachers' separate account	1,038,576	857,937
	TOTAL ALTERNATIVE INVESTMENTS	612,501,591	786,562,110

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1997

Shares/Par Value	Description	Cost	Market Value
	INTERNATIONAL EQUITIES		
84,168,047	Basic industries	$ 208,981,150	$ 224,961,480
130,995,511	Capital goods	240,910,758	264,849,290
20,815,354	Consumer basics	235,872,952	271,015,973
12,579,008	Consumer durable goods	201,662,633	240,893,168
18,432,924	Consumer nondurables	229,983,504	259,992,844
11,013,877	Consumer services	57,859,792	61,476,360
23,481,561	Energy	157,310,582	174,954,757
78,320,406	Finance	430,260,721	485,281,350
35,292,690	General business	145,885,986	158,209,332
13,057,979	Shelter	90,574,159	99,203,058
19,088,979	Technology	136,967,177	163,469,754
3,338,047	Transportation	39,011,314	42,958,341
45,418,679	Utilities	187,697,501	212,626,160
216,941,120	Miscellaneous	418,411,151	465,135,629
	TOTAL INTERNATIONAL EQUITIES	2,781,389,380	3,125,027,496
	INTERNATIONAL FIXED-INCOME		
	Government and Supranational with rates ranging from 0% to 9.75% and maturities ranging from 1997 to 2024	282,508,479	293,506,452
	Foreign Corporate Bonds with rates ranging from 0% to 10.5% and maturities from 1997 to 2026	65,977,114	65,409,338
	Foreign Convertible Bonds with a rate of ranging from 1.9% to 2% and maturities from 2002 to 2004	1,513,500	2,068,841
	TOTAL INTERNATIONAL FIXED-INCOME	349,999,093	360,984,631
	TOTAL INVESTMENTS (a)	$17,768,210,844	$20,331,058,879

(a) The portfolio includes securities with an estimated fair value of $798,235 at June 30, 1997 which were restricted as to public resale and not registered under the Securities Act of 1933.

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1997

Forward Foreign Currency Contracts Outstanding

		Market Value	Aggregate Face Amount	Delivery Date	Unrealized Appreciation/ (Depreciation)
(B)	Australian Dollar	$ 32,604,395	$ 33,172,595	8/26-10/30/97	$ (568,200)
(S)	Australian Dollar	37,902,228	39,004,140	7/3-10/30/97	1,101,912
(B)	Austrian Schilling	611,814	643,556	7/03/97	(31,742)
(S)	Austrian Schilling	611,813	614,311	7/03/97	2,498
(B)	Belgian Franc	7,137,216	7,216,479	8/08/97	(79,263)
(S)	Belgian Franc	7,137,216	7,183,002	8/08/97	45,786
(B)	Canadian Dollar	16,425,196	16,354,567	7/14-9/30/97	70,629
(S)	Canadian Dollar	16,425,196	16,470,481	7/14-9/30/97	45,285
(B)	Danish Krone	3,836,541	3,869,387	9/30-10/3/97	(32,846)
(S)	Danish Krone	3,836,541	3,957,104	9/30-10/3/97	120,563
(B)	Deutsche Mark	317,529,957	325,951,112	7/18-10/30/97	(8,421,155)
(S)	Deutsche Mark	470,287,439	478,193,276	7/25-10/30/97	7,905,837
(B)	European Currency Unit	4,277,971	4,284,603	1/15/98	(6,632)
(S)	European Currency Unit	4,277,971	4,463,994	1/15/98	186,023
(B)	French Franc	186,994,156	191,417,868	7/31-10/30/97	(4,423,712)
(S)	French Franc	267,938,471	272,942,221	7/31-10/30/97	5,003,750
(B)	Indonesian Rupiah	75,092	75,135	7/1-7/3/97	(43)
(B)	Irish Pound	4,413,392	4,425,446	7/3-9/30/97	(12,054)
(S)	Irish Pound	4,413,392	4,585,343	9/30/97	171,951
(B)	Italian Lira	47,343,112	47,519,073	7/1-9/30/97	(175,961)
(S)	Italian Lira	47,343,112	47,293,785	7/1-9/30/97	(49,327)
(B)	Japanese Yen	357,105,180	342,861,966	6/30-10/31/97	14,243,214
(S)	Japanese Yen	377,395,101	354,330,194	7/1-11/20/97	(23,064,907)
(B)	Malaysian Ringgit	82,704	82,891	7/1-7/2/97	(187)
(B)	Netherlands Guilder	3,644,272	3,672,853	9/19/97	(28,581)
(S)	Netherlands Guilder	3,644,272	3,744,726	9/19/97	100,454
(B)	New Zealand Dollar	1,794,120	1,826,053	9/30/97	(31,933)
(S)	New Zealand Dollar	3,216,454	3,272,874	7/1-9/30/97	56,420
(B)	Portuguese Escudo	111,091	111,474	7/1-7/3/97	(383)
(B)	Pound Sterling	62,546,593	61,546,492	7/31-10/30/97	1,000,101
(S)	Pound Sterling	90,672,037	88,618,358	7/31-10/30/97	(2,053,679)
(B)	Spanish Peseta	22,792,769	23,070,461	7/11-9/30/97	(277,692)
(S)	Spanish Peseta	22,792,768	23,368,947	7/11-9/30/97	576,179
(B)	Swedish Krona	1,035,929	1,041,421	7/1-8/1/97	(5,492)
(S)	Swedish Krona	11,198,823	11,364,002	7/1-10/30/97	165,179
(B)	Swiss Franc	698,029	699,064	7/1-8/15/97	(1,035)
(S)	Swiss Franc	13,387,850	13,461,472	8/6-8/15/97	73,622
(B)	Thailand Baht	82,490	87,758	7/03/97	(5,268)
					$ (8,400,689)

(B) = Buy (S) = Sell

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1997

Futures Contracts

	Expiration Date	Notional Value	Unrealized Gain/(Loss)
Purchased			
490 Treasury Bond	Sept. 1997	$ 54,420,625	$ 30,625
1,104 Treasury Note	Sept. 1997	119,094,000	(21,375)
32 S&P 500 Index	Sept. 1997	14,244,000	(141,125)
			$ (131,875)

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1996

Shares/ ParValue	Description	Cost	Market Value
	DOMESTIC EQUITIES		
4,156,372	Basic industries	$ 86,301,711	$ 94,897,731
4,102,950	Capital goods	90,918,668	109,179,953
8,691,933	Consumer basics	202,470,495	258,779,744
2,384,685	Consumer durable goods	45,641,828	54,455,522
4,324,491	Consumer nondurables	92,364,479	117,042,549
2,524,293	Consumer services	53,162,586	73,452,897
2,892,718	Energy	64,848,612	83,769,085
22,624,656	Finance	448,581,592	618,970,115
5,979,976	General business	125,290,571	162,403,325
678,038	Shelter	13,344,720	15,402,761
9,752,307	Technology	231,313,392	283,448,100
1,130,945	Transportation	22,344,477	26,871,587
2,708,338	Utilities	77,065,509	90,167,008
44,735,637	Miscellaneous	1,563,984,120	2,030,463,141
	TOTAL DOMESTIC EQUITIES	3,117,632,760	4,019,303,518
	DOMESTIC FIXED-INCOME INVESTMENTS		
	Corporate Bonds		
$ 67,521,075	Financing and Banking with rates ranging from 0% to 15.625% and maturities ranging from 1996 to 2035	67,436,538	65,983,899
127,674,536	Industrials with variable and fixed rates ranging from 0% to 14.0% and maturities ranging from 1996 to 2035	116,558,279	118,946,873
57,365,960	Utilities with fixed and variable rates ranging from 0% to 20.25% and maturities ranging from 1996 to 2026	49,583,800	50,419,547
16,137,308	Transportation with rates ranging from 0% to 10.23% and maturities ranging from 1997 and 2014	15,707,494	16,333,144

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1996

Shares/Par Value	Description	Cost	Market Value
$169,705,618	Miscellaneous/other with rates ranging from 0% to 23.0% and maturities ranging from 1996 to 2026	$ 148,484,353	$ 149,942,595
	Total Corporate Bonds	397,770,464	401,626,058
	Other Fixed-Income Investments		
10,392,083	Asset-backed securities with rates ranging from 6.45% to 8.875% and maturities ranging from 1995 to 2003	10,626,968	10,433,995
105,879,000	Convertible Bonds with rates ranging from 0% to 8.25% and maturities ranging from 1996 to 2015	87,307,676	90,598,335
29,007,755	Collateralized Mortgage Obligations with rates ranging from 6.25% to 15.25% and maturities ranging from 2003 to 2032	29,076,363	29,459,154
1,107,887	Other Marketable Mortgage obligations with rates ranging from 0% to 8.35% and maturities ranging from 2015 to 2029	1,082,577	1,100,440
	Total Other Domestic Fixed-Income Investments	128,093,584	131,591,924
	TOTAL DOMESTIC FIXED-INCOME INVESTMENTS	525,864,048	533,217,982
	U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS		
237,857,296	U.S. Government sponsored and guaranteed with rates ranging from 0% to 18.0% and maturities ranging from 1997 to 2026	233,639,162	233,916,478

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1996

Shares/Par Value	Description	Cost	Market Value
$127,706,311	Federal Agency securities with rates ranging from 0% to 15.0% and maturities ranging from 1996 to 2026	$123,701,676	$123,512,874
651,170,189	United States Treasury Bonds/Notes with rates ranging from 0% to 16.25% and maturities ranging from 1996 to 2023	500,142,493	496,184,788
17,266,000	Yankee Bonds with rates ranging form 6.0% to 17% and maturities from 1997 to 2024	18,601,474	18,416,338
	TOTAL U.S. GOVERNMENT AGENCY AND TREASURY OBLIGATIONS	876,084,805	872,030,478
	MONEY MARKET INVESTMENTS		
	Various Money Market Investments	334,290,664	334,370,325
	TOTAL MONEY MARKET INVESTMENTS	334,290,664	334,370,325
	REAL ESTATE		
	Commingled funds	130,919,329	90,932,805
	Separate accounts	362,162,104	270,171,439
	State Employees' and Teachers' separate account	124,122,076	131,640,771
	TOTAL REAL ESTATE	617,203,509	492,745,015
	ALTERNATIVE INVESTMENTS		
	Venture Capital	76,834,681	92,616,146
	Special Equity	310,417,280	418,146,786
	State Employees' and Teachers' separate account	158,747,099	169,613,901
	TOTAL ALTERNATIVE INVESTMENTS	545,999,060	680,376,833

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1996

Shares/Par Value	Description	Cost	Market Value
	INTERNATIONAL EQUITIES		
66,894,055	Basic industries	$ 60,457,949	$ 62,054,299
99,241,083	Capital goods	55,107,514	57,558,293
10,574,258	Consumer basics	44,575,565	49,596,091
3,558,500	Consumer durable goods	32,922,113	37,414,872
6,230,265	Consumer nondurables	31,934,618	34,465,820
2,416,848	Consumer services	5,690,774	5,987,125
10,935,755	Energy	18,269,215	18,964,886
136,713,597	Finance	111,574,263	117,017,816
33,292,028	General business	18,647,594	22,267,511
2,824,258	Shelter	25,368,027	27,657,644
17,898,604	Technology	20,571,816	23,229,594
2,834,853.	Transportation	12,143,935	12,513,513
33,899,060	Utilities	32,471,732	34,891,814
59,446,293	Miscellaneous	46,308,321	49,937,631
	TOTAL INTERNATIONAL EQUITIES	516,043,436	553,556,909
	INTERNATIONAL FIXED-INCOME		
	Government and Supranational with rates ranging from 0% to 19.00% and maturities ranging from 1996 to 2024	279,923,164	278,557,238
	Foreign Corporate Bonds with rates ranging from 0% to 13.25% and maturities from 1997 to 2025	72,828,979	72,297,852
	Foreign Convertible Bond with a rate of 6% and maturity of 2003	31,900	19,393
	TOTAL INTERNATIONAL FIXED-INCOME	352,784,043	350,874,483
	TOTAL INVESTMENTS	$ 6,885,902,325	$ 7,836,475,543

A detailed portfolio listing is available for review at the offices of the Pension Reserves Investment Management Board.

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1996

Forward Foreign Currency Contracts Outstanding

		Market Value	Aggregate Face Amount	Delivery Date	Unrealized Appreciation/ (Depreciation)
(B)	Austrian Schilling	$ 155,023	$ 154,571	10/18/96	$ 452
(B)	Australian Dollar	2,267,528	2,292,740	10/30/96	(25,212)
(S)	Australian Dollar	5,378,087	5,355,565	7/13 - 10/30/96	22,522
(B)	Belgian Franc	7,447,036	7,621,718	8/2/96	(174,682)
(S)	Belgian Franc	6,018,523	5,935,751	8/2/96	82,772
(B)	Canadian Dollar	7,557,631	7,523,740	10/4/96	33,891
(B)	Deutschemark	25,915,906	25,919,652	9/6 - 10/30/96	(3,746)
(S)	Deutschemark	213,945,158	213,115,943	7/17 - 11/12/96	829,215
(S)	Danish Krona	15,122,940	15,244,319	9/4 - 9/27/96	(121,379)
(B)	Spanish Peseta	16,538,572	16,762,687	7/5/96	(224,115)
(S)	Spanish Peseta	28,481,292	28,343,279	7/5 - 9/10/96	138,013
(S)	Finnish Markar	170,135	171,189	7/1 - 7/2/96	(1,054)
(B)	French Franc	8,332,348	8,327,525	8/30/96	4,823
(S)	French Franc	71,335,984	71,357,969	7/31 - 11/12/96	(21,985)
(B)	Great British Pound	84,687,942	82,639,794	7/3 - 10/30/96	2,048,148
(S)	Great British Pound	91,534,515	94,221,253	9/20 - 11/12/96	(2,686,738)
(B)	Greek Drachma	95,209	95,378	7/2/96	(169)
(B)	Italian Lira	7,887,456	7,743,404	7/12 - 7/25/96	144,052
(S)	Italian Lira	18,461,605	19,056,026	7/12 - 7/25/96	(594,421)
(B)	Japanese Yen	65,323,929	67,761,003	7/19 - 8/30/96	(2,437,074)
(S)	Japanese Yen	286,932,744	278,490,591	7/1 - 10/30/96	8,442,153
(B)	Malaysian Ringit	158,316	158,555	7/5 -7/8/96	(239)
(B)	Netherlands Guilders	4,815,604	4,803,318	7/2 - 9/13/96	12,286
(S)	Netherlands Guilders	13,263,504	13,263,520	7/1 - 11/12/96	(16)
(B)	New Zealand Dollar	133,287	133,517	7/3/96	(230)
(B)	Swedish Krona	6,210,240	6,134,791	7/26 - 10/30/96	75,449
(S)	Swedish Krona	22,529,295	22,670,249	7/18 - 10/30/96	(140,954)
(B)	Thai Baht	46,582	47,967	7/03/96	(1,385)
(B)	European Currency Unit	8,415,925	8,315,302	7/24/96	100,623
(S)	European Currency Unit	6,741,939	6,753,545	7/24/96	(11,606)
					$ 5,489,394

(B) = Buy
(S) = Sell

The accompanying notes are an integral part of the financial statements.

PENSION RESERVES INVESTMENT TRUST FUND

SCHEDULES OF INVESTMENTS, CONTINUED

June 30, 1996

Futures Contracts

	Expiration Date	Notional Value	Unrealized Gain/(Loss)
Purchased			
340 Treasury Bond	Sept. 1996	$ 36,380,000	$ 860,625
702 10 yr. Treasury Note	Sept. 1996	74,201,875	1,263,125
			$ 2,123,750

Written Options

	Number of Contracts	Expiration Date	Strike Price	Value
Put options:				
Eurodollar	96	March 1997	$ 93.0	$ 24,000
Eurodollar	300	June 1997	93.5	277,500
Total outstanding written options (Premiums received $360,973)				$ 301,500

The accompanying notes are an integral part of the financial statements.